

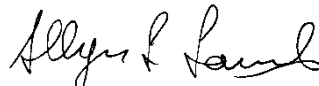
# THIRD QUARTER 2011

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## CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2011 quarterly report of AgChoice Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Allyn L. Lamb  
Chief Executive Officer



Darrell L. Curtis  
Chief Operating Officer  
& Chief Financial Officer



William K. Jackson  
Chairman of the Board  
November 7, 2011

# Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2011. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of September 30, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2011.



Allyn L. Lamb  
Chief Executive Officer



Darrell L. Curtis  
Chief Financial Officer &  
Chief Operating Officer

November 7, 2011

# Management's Discussion and Analysis of Financial Condition and Results of Operations

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of AgChoice Farm Credit ACA, (Association) for the period ended September 30, 2011. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2010 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. Information in any part of this Quarterly Report may be incorporated by reference in answer or partial answer to any other item of the Quarterly Report.

## **LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities, including dairy, livestock, poultry, forest products, and various crops, and also includes part-time farm and rural home loans. Farm size varies, and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, impacts the level of dependency on a given commodity.

The gross loan volume of the Association as of September 30, 2011, was \$1,290,142, a decrease of \$14,389 as compared to \$1,304,531 at December 31, 2010. Net loans outstanding at September 30, 2011, were \$1,281,387 as compared to \$1,296,059 at December 31, 2010. Net loans accounted for 95.8 percent of total assets at September 30, 2011, as compared to 95.0 percent of total assets at December 31, 2010.

The 1.1 percent decrease in both gross and net loan volume during the reporting period is the result of principal payments and payoffs outpacing new loan volume.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual volume increased from \$43,821 at December 31, 2010, to \$44,959 at September 30, 2011. The Association continues efforts to work out of nonaccrual accounts or to assist such operations to return to accrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses was \$8,755 and \$8,472 at September 30, 2011 and December 31, 2010, respectively. These reserves were considered by management to be adequate to cover possible losses. As a further means to reduce credit risk, as of September 30, 2011, the Association had loans amounting to \$33,079 under a long-term standby commitment from Farmer Mac to purchase these loans in the event of loan defaults.

## **RESULTS OF OPERATIONS**

### ***For the three months ended September 30, 2011***

Net income for the three months ended September 30, 2011, totaled \$7,981, as compared to \$8,764 for the same period in 2010. Net interest income increased by \$356 for the three months ended September 30, 2011, as compared to the third quarter in 2010.

At September 30, 2011, interest income on accruing loans decreased \$874 compared to a year ago. Nonaccrual interest income was \$421 for the three months ended September 30, 2011, as compared to \$80 for the same period in 2010. Interest expense decreased \$889 for the three months ended September 30, 2011, as compared to the same period of 2010. The decrease in interest income and interest expense is mainly due to the decline in volume and the decrease in rates seen in the market place.

Increased risk in the portfolio relating to nonaccrual accounts and losses on certain participation accounts resulted in a \$1,815 provision for loan losses in the third quarter of 2011.

Noninterest income for the three months ended September 30, 2011, totaled \$5,117, as compared to \$4,589 for the same period of 2010, an increase of \$528. This increase was mostly caused by the reversal of a 2011 reserve for unfunded commitments of \$1,048 that was booked during the second quarter of 2011.

Noninterest expense for the three months ended September 30, 2011, increased \$248 or 4.8 percent, compared to the same period of 2010. This increase is primarily due to higher personnel expense.

The provision for income taxes was \$65 for the third quarter of 2011 as compared to a \$41 provision in the same period last year.

### ***For the nine months ended September 30, 2011***

Net income for the nine months ended September 30, 2011, totaled \$23,693, as compared to \$25,857 for the same period in 2010. Net interest income increased \$2,790 for the nine months ended September 30, 2011, as compared to the same period one year ago.

At September 30, 2011, interest income on accruing loans decreased \$2,227 compared to a year ago. Nonaccrual interest income was \$1,412 for the nine months ended September 30, 2011, as compared to \$244 for the same period in 2010. Interest expense decreased \$3,849 for the nine months ended September 30, 2011, as compared to the comparable period of 2010. The decrease in interest income and interest expense is primarily due to declining volume and the decrease in rates seen in the market place during the past year.

Increased risk in the portfolio relating to nonaccrual accounts and a large charge-off for a participation account resulted in a \$2,066 provision for loan losses through the third quarter 2011.

Noninterest income for the nine months ended September 30, 2011, totaled \$12,135, as compared to \$15,621 for the same period of 2010, a decrease of \$3,486. This decrease resulted from the receipt of \$1,809 FCSIC refund in 2010 that was not repeated in 2011 and a large 2011 writedown of an acquired property. Equity in earnings of other Farm Credit institutions decreased \$1,033 due to lower borrowing from the Bank and a smaller volume of loans sold to the Bank.

Noninterest expense for the nine months ended September 30, 2011, increased \$1,126, or 7.1 percent, compared to the same period of 2010. This increase was primarily due to higher personnel, director, furniture and equipment, training and travel expenses.

The provision for income taxes was \$166 for the nine months ended September 30, 2011 as compared to \$100 in the same period last year.

### **FUNDING SOURCES**

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The

notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2011, was \$1,064,962 as compared to \$1,101,436 at December 31, 2010. The decrease in notes payable is mainly due to the decrease in gross loan volume since the end of 2010, the receipt of the 2010 Equity in earnings of other Farm Credit institutions and 2011 Association year-to-date net income.

### **CAPITAL RESOURCES**

Total members' equity at September 30, 2011, increased to \$251,254 from the December 31, 2010, total of \$234,824. The increase is primarily attributed to year-to-date 2011 earnings.

Total capital stock and participation certificates were \$10,958 on September 30, 2011, compared to \$11,179 on December 31, 2010.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus, as defined in FCA regulations, by a risk-adjusted asset base. As of September 30, 2011, the Association's permanent capital and total surplus ratios were 16.77 percent and 15.93 percent, respectively, and the core surplus ratio was 14.20 percent. All three ratios were well above the minimum regulatory requirements of 7.00 percent for the permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

### **REGULATORY MATTERS**

On August 18, 2011, the FCA published for comment an amendment to the regulations governing investments held by institutions of the System. The stated objectives of the proposed rule are to:

- ensure that the Banks hold sufficient high quality, readily marketable investments to provide sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption;
- strengthen the safety and soundness of System institutions;
- seek comments on how the FCA can comply with section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires the FCA to remove all references to and requirements relating to credit ratings and to substitute other appropriate standards of creditworthiness;

- 
- reduce regulatory burden with respect to investments that fail to meet eligibility criteria after purchase or are unsuitable; and
  - enhance the ability of the System to supply credit to agriculture and aquatic producers by ensuring adequate availability to funds.

The System is in the process of developing a response to the proposed amendment to the investment regulations. Comments are due by November 16, 2011.

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**Note:** Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745 ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-349-3568 or writing AgChoice Farm Credit, ACA, 900 Bent Creek Blvd., Mechanicsburg, PA, 17050, or accessing the website [www.agchoice.com](http://www.agchoice.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# AgChoice Farm Credit, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>September 30, 2011</b>	<b>December 31, 2010</b>
	<i>(unaudited)</i>	<i>(audited)</i>
<b>Assets</b>		
Cash	\$ 77	\$ 355
Investment securities:		
Held to maturity (fair value of \$3,023 and \$2,597 respectively)	2,392	2,392
Loans	1,290,142	1,304,531
Less: allowance for loan losses	8,755	8,472
Net loans	1,281,387	1,296,059
Accrued interest receivable	6,649	5,218
Investments in other Farm Credit institutions	29,164	30,719
Premises and equipment, net	3,686	3,701
Other property owned	1,142	2,397
Due from AgFirst Farm Credit Bank	9,483	16,617
Other assets	4,044	7,001
Total assets	<u>\$ 1,338,024</u>	<u>\$ 1,364,459</u>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,064,962	\$ 1,101,436
Accrued interest payable	2,180	2,379
Patronage refund payable	606	12,353
Other liabilities	19,022	13,467
Total liabilities	<u>1,086,770</u>	<u>1,129,635</u>
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	10,958	11,179
Retained earnings		
Allocated	114,772	121,535
Unallocated	125,532	102,115
Accumulated other comprehensive income (loss)	(8)	(5)
Total members' equity	<u>251,254</u>	<u>234,824</u>
Total liabilities and members' equity	<u>\$ 1,338,024</u>	<u>\$ 1,364,459</u>

*The accompanying notes are an integral part of these financial statements.*

AgChoice Farm Credit, ACA

# Consolidated Statements of Income

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Interest Income</b>				
Investment securities	\$ 37	\$ —	\$ 112	\$ —
Loans	16,875	17,445	50,994	52,165
Total interest income	16,912	17,445	51,106	52,165
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	6,709	7,598	20,371	24,220
Net interest income	10,203	9,847	30,735	27,945
Provision for loan losses	1,815	420	2,066	1,790
Net interest income after provision for loan losses	8,388	9,427	28,669	26,155
<b>Noninterest Income</b>				
Loan fees	556	528	1,628	1,502
Fees for financially related services	379	344	885	801
Equity in earnings of other Farm Credit institutions	3,135	3,632	10,249	11,282
Gains (losses) on other property owned, net	(42)	(6)	(964)	(45)
Gains (losses) on sale of rural home loans, net	43	84	179	149
Gains (losses) on sales of premises and equipment, net	16	7	30	16
Insurance Fund refunds	—	—	—	1,809
Other noninterest income	1,030	—	128	107
Total noninterest income	5,117	4,589	12,135	15,621
<b>Noninterest Expense</b>				
Salaries and employee benefits	3,700	3,502	11,736	10,892
Occupancy and equipment	343	323	932	885
Insurance Fund premium	159	139	475	422
Other operating expenses	1,257	1,247	3,802	3,620
Total noninterest expense	5,459	5,211	16,945	15,819
Income before income taxes	8,046	8,805	23,859	25,957
Provision for income taxes	65	41	166	100
Net income	\$ 7,981	\$ 8,764	\$ 23,693	\$ 25,857

*The accompanying notes are an integral part of these financial statements.*

AgChoice Farm Credit, ACA  
**Consolidated Statements of Changes in  
Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	<b>Capital Stock and Participation Certificates</b>	<b>Retained Earnings</b>		<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Members' Equity</b>
		<b>Allocated</b>	<b>Unallocated</b>		
Balance at December 31, 2009	\$ 11,695	\$ 107,109	\$ 95,015	\$ 4	\$ 213,823
Comprehensive income					
Net income			25,857		25,857
Employee benefit plans adjustments				1	1
Total comprehensive income					25,858
Capital stock/participation					
certificates issued/(retired), net	(418)				(418)
Dividends declared/paid	16		(16)		-
Retained earnings retired		(3,117)			(3,117)
Patronage distribution adjustment		(28)	21		(7)
Balance at September 30, 2010	\$ 11,293	\$ 103,964	\$ 120,877	\$ 5	\$ 236,139
Balance at December 31, 2010	\$ 11,179	\$ 121,535	\$ 102,115	\$ (5)	\$ 234,824
Comprehensive income					
Net income			23,693		23,693
Employee benefit plans adjustments				(3)	(3)
Total comprehensive income					23,690
Capital stock/participation					
certificates issued/(retired), net	(236)				(236)
Dividends declared/paid	15		(15)		-
Retained earnings retired		(7,023)			(7,023)
Patronage distribution adjustment		260	(261)		(1)
Balance at September 30, 2011	\$ 10,958	\$ 114,772	\$ 125,532	\$ (8)	\$ 251,254

*The accompanying notes are an integral part of these financial statements.*

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## AgChoice Farm Credit, ACA

# Notes to the Consolidated Financial Statements

*(dollars in thousands, except as noted)  
(unaudited)*

### **NOTE 1 – ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

The accompanying financial statements include the accounts of AgChoice Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2010, are contained in the 2010 Annual Report to Shareholders. These unaudited third quarter 2011 consolidated financial statements should be read in conjunction with the 2010 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the nine months ended September 30, 2011, are not necessarily indicative of the results to be expected for the year ending December 31, 2011.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30, 2011 the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

#### **Recently Issued Accounting Pronouncements**

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The amendment is intended to provide for more information about an employer's financial obligations to multiemployer pension and other postretirement benefit plans, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the

obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented.

In June 2011, the FASB issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This amendment is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. This guidance is to be applied retrospectively. For public entities, it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value

of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

In April 2011, the FASB issued guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring (TDR). In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities, including the Association, for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The guidance should be applied retrospectively to the beginning of the annual period of adoption. The new disclosures about TDR activity required by the guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," as discussed below, are effective for annual reporting periods ending after December 15, 2011. The impact of adoption of this guidance, if any, is expected to be immaterial to the Association's financial condition and results of operations, but it will result in additional disclosures.

In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This amendment temporarily delayed the effective date of the disclosures about TDRs required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about TDRs coincides with the guidance for determining what constitutes a TDR as described above.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This amendment provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated).

The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period were effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in significant additional disclosures (see Note 3).

Effective January 1, 2010, the Association adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 6).

Other recently issued accounting pronouncements are discussed in the 2010 Annual Report to Shareholders.

## NOTE 2 – INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held-to-maturity at September 30, 2011 and December 31, 2010 follows.

		September 30, 2011				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments		\$ 2,392	\$ 631	\$ -	\$ 3,023	6.23%
		December 31, 2010				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments		\$ 2,392	\$ 205	\$ -	\$ 2,597	6.23%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities held-to-maturity at September 30, 2011 follows:

		September 30, 2011		
		Amortized Cost	Fair Value	Weighted Average Yield
In one year or less		\$ -	\$ -	-%
After one year through five years		-	-	-
After five years through ten years		-	-	-
After ten years		2,392	3,023	6.23
Total		\$ 2,392	\$ 3,023	6.23%

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The Association had no investments that have been in a continuous unrealized loss position at September 30, 2011 or December 31, 2010.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers and 7) volatility of the fair value changes. Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment in connection with its investment securities. The Association has the ability and intent to hold these investments until maturity and at this time expects to collect the full principal amount and interest due on these securities.

The Association does not intend to sell these investments and it is unlikely that the Association would be required to sell these investments before recovering its costs. All securities continue to perform and are in an unrealized gain position at September 30, 2011.

## NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans outstanding as of September 30, 2011 and December 31, 2010, follows:

	September 30, 2011	December 31, 2010
Real estate mortgage	\$ 556,032	\$ 548,707
Production and intermediate-term Agribusiness	560,733	561,418
Loans to cooperatives	10,492	16,254
Processing and marketing	58,098	61,004
Farm-related business	23,459	27,955
Total agribusiness	92,049	105,213
Communication	39,143	40,914
Energy	16,073	19,010
Rural residential real estate	23,850	25,723
Lease receivables	2,262	3,546
Total loans	\$ 1,290,142	\$ 1,304,531

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following tables present participations purchased and sold balances at September 30, 2011 and December 31, 2010:

September 30, 2011								
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 9,287	\$ 78,526	\$ 17,500	\$ -	\$ -	\$ -	\$ 26,787	\$ 78,526
Production and intermediate-term Agribusiness	57,917	62,847	18,953	7,996	24,513	-	101,383	70,843
Loans to cooperatives	549	-	9,965	-	-	-	10,514	-
Processing and marketing	13,561	639	27,691	-	13,498	-	54,750	639
Farm-related business	-	3,766	-	-	840	-	840	3,766
Total agribusiness	14,110	4,405	37,656	-	14,338	-	66,104	4,405
Communication	1,329	-	37,962	-	-	-	39,291	-
Energy	2,434	-	13,675	-	-	-	16,109	-
Lease receivables	-	-	2,163	-	-	-	2,163	-
Total	\$ 85,077	\$ 145,778	\$ 127,909	\$ 7,996	\$ 38,851	\$ -	\$ 251,837	\$ 153,774

December 31, 2010								
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 10,776	\$ 110,545	\$ 20,125	\$ -	\$ -	\$ -	\$ 30,901	\$ 110,545
Production and intermediate-term Agribusiness	46,777	76,402	12,788	8,403	30,588	-	90,153	84,805
Loans to cooperatives	3,006	-	13,293	-	-	-	16,299	-
Processing and marketing	21,032	3,880	13,095	-	19,742	-	53,869	3,880
Farm-related business	-	3,141	-	-	-	-	-	3,141
Total agribusiness	24,038	7,021	26,388	-	19,742	-	70,168	7,021
Communication	-	-	41,088	-	-	-	41,088	-
Energy	2,434	-	16,629	-	-	-	19,063	-
Lease receivables	-	-	3,546	-	-	-	3,546	-
Total	\$ 84,025	\$ 193,968	\$ 120,564	\$ 8,403	\$ 50,330	\$ -	\$ 254,919	\$ 202,371

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at September 30, 2011 and indicates that approximately 28.34 percent of loans had maturities of less than one year:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 24,789	\$ 133,417	\$ 397,826	\$ 556,032
Production and intermediate-term Agribusiness	221,895	212,816	126,022	560,733
Loans to cooperatives	9,913	189	390	10,492
Processing and marketing	48,763	7,519	1,816	58,098
Farm-related business	5,252	9,603	8,604	23,459
Total agribusiness	63,928	17,311	10,810	92,049
Communication	39,163	(67)	47	39,143
Energy	14,289	(37)	1,821	16,073
Rural residential real estate	1,034	4,756	18,060	23,850
Lease receivables	544	1,543	175	2,262
Total Loans	\$ 365,642	\$ 369,739	\$ 554,761	\$ 1,290,142

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010		September 30, 2011	December 31, 2010
<b>Real estate mortgage:</b>			<b>Communication:</b>		
Acceptable	88.73%	88.26%	Acceptable	100.00%	100.00%
OAEM	5.22	5.67	OAEM	-	-
Substandard/doubtful/loss	6.05	6.07	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Energy and water/waste disposal:</b>		
Acceptable	82.02%	79.36%	Acceptable	100.00%	100.00%
OAEM	10.41	10.52	OAEM	-	-
Substandard/doubtful/loss	7.57	10.12	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Agribusiness:</b>			<b>Rural residential real estate:</b>		
<b>Loans to cooperatives:</b>			Acceptable	91.63%	90.05%
Acceptable	88.93%	96.49%	OAEM	3.70	3.10
OAEM	11.07	3.51	Substandard/doubtful/loss	4.67	6.85
Substandard/doubtful/loss	-	-		<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>			
<b>Processing and marketing:</b>			<b>Lease receivables:</b>		
Acceptable	89.31%	93.56%	Acceptable	76.09%	77.29%
OAEM	6.44	1.66	OAEM	12.47	7.57
Substandard/doubtful/loss	4.25	4.78	Substandard/doubtful/loss	11.44	15.14
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Farm-related business:</b>			<b>Total loans:</b>		
Acceptable	93.17%	97.00%	Acceptable	86.44%	85.51%
OAEM	1.98	1.84	OAEM	7.28	7.16
Substandard/doubtful/loss	4.85	1.16	Substandard/doubtful/loss	6.28	7.33
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Total agribusiness:</b>					
Acceptable	90.25%	94.93%			
OAEM	5.83	1.99			
Substandard/doubtful/loss	3.92	3.08			
	<u>100.00%</u>	<u>100.00%</u>			

The following tables provide an age analysis of past due loans and related accrued interest as of September 30, 2011 and December 31, 2010:

	September 30, 2011					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 5,874	\$ 9,284	\$ 15,158	\$ 544,350	\$ 559,508	\$ -
Production and intermediate-term	2,177	12,407	14,584	548,676	563,260	-
Agribusiness						
Loans to cooperatives	-	-	-	10,513	10,513	-
Processing and marketing	144	-	144	58,090	58,234	-
Farm-related business	214	35	249	23,352	23,601	-
Total agribusiness	<u>358</u>	<u>35</u>	<u>393</u>	91,955	92,348	-
Communication	-	-	-	39,232	39,232	-
Energy and water/waste disposal	-	-	-	16,133	16,133	-
Rural residential real estate	434	346	780	23,195	23,975	-
Lease receivables	-	87	87	2,198	2,285	-
Total	<u>\$ 8,843</u>	<u>\$ 22,159</u>	<u>\$ 31,002</u>	<u>\$ 1,265,739</u>	<u>\$ 1,296,741</u>	<u>\$ -</u>

**December 31, 2010**

	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>	<b>Recorded Investment 90 Days or More Past Due and Accruing Interest</b>
Real estate mortgage	\$ 3,432	\$ 6,175	\$ 9,607	\$ 541,667	\$ 551,274	\$ -
Production and intermediate-term Agribusiness	4,069	11,113	15,182	548,251	563,433	778
Loans to cooperatives	-	-	-	16,288	16,288	-
Processing and marketing	-	-	-	61,208	61,208	-
Farm-related business	10	40	50	28,004	28,054	-
Total agribusiness	10	40	50	105,500	105,550	-
Communication	-	-	-	41,011	41,011	-
Energy and water/waste disposal	-	-	-	19,074	19,074	-
Rural residential real estate	122	382	504	25,329	25,833	-
Lease receivables	81	90	171	3,399	3,570	-
Other (including mission-related)	-	-	-	4	4	-
Total	\$ 7,714	\$ 17,800	\$ 25,514	\$ 1,284,235	\$ 1,309,749	\$ 778

The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs and may also reflect a previous direct write-down of the investment.

Nonperforming assets (including related accrued interest) and related credit quality statistics at September 30, 2011 and December 31, 2010 are as follows:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 16,258	\$ 14,767
Production and intermediate-term Agribusiness	27,713	27,128
Processing and marketing	90	984
Farm-related business	35	40
Total agribusiness	125	1,024
Rural residential real estate	601	623
Lease receivables	262	279
Total nonaccrual loans	\$ 44,959	\$ 43,821
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 351	\$ -
Production and intermediate-term Agribusiness	162	-
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Lease receivables	-	-
Total accruing restructured loans	\$ 513	\$ -
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ -	\$ -
Production and intermediate-term Agribusiness	-	778
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Lease receivables	-	-
Total accruing loans 90 days or more past due	\$ -	\$ 778
Total nonperforming loans	\$ 45,472	\$ 44,599
Other property owned	1,142	2,397
Total nonperforming assets	\$ 46,614	\$ 46,996
Nonaccrual loans as a percentage of total loans	3.48%	3.36%
Nonperforming assets as a percentage of total loans and other property owned	3.61%	3.60%
Nonperforming assets as a percentage of capital	18.55%	20.01%

The following table presents information relating to impaired loans (including accrued interest) at September 30, 2011 and December 31, 2010. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	September 30, 2011	December 31, 2009
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 18,664	\$ 21,908
Past due	26,295	21,913
Total impaired nonaccrual loans	<u>44,959</u>	<u>43,821</u>
Impaired accrual loans:		
Restructured	513	-
90 days or more past due	-	778
Total impaired accrual loans	<u>513</u>	<u>778</u>
Total impaired loans	<u>\$ 45,472</u>	<u>\$ 44,599</u>

Additional impaired loan information as of September 30, 2011 and December 31, 2010 is as follows:

	September 30, 2011			Quarter Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans with a related allowance for credit losses:</b>							
Real estate mortgage	\$ 4,107	\$ 5,760	\$ 331	\$ 4,326	\$ 38	\$ 4,189	\$ 132
Production and intermediate-term Agribusiness	17,985	20,253	2,736	18,945	168	18,347	581
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-
Total agribusiness	-	-	-	-	-	-	-
Rural residential real estate	346	333	133	364	3	353	11
Lease receivables	87	88	56	92	1	89	3
Total	<u>\$ 22,525</u>	<u>\$ 26,434</u>	<u>\$ 3,256</u>	<u>\$ 23,727</u>	<u>\$ 210</u>	<u>\$ 22,978</u>	<u>\$ 727</u>
<b>Impaired loans with no related allowance for credit losses:</b>							
Real estate mortgage	\$ 12,502	\$ 13,562	\$ -	\$ 13,169	\$ 117	\$ 12,753	\$ 404
Production and intermediate-term Agribusiness	9,890	15,375	-	10,418	92	10,088	319
Processing and marketing	90	90	-	95	1	92	3
Farm-related business	35	35	-	37	-	36	1
Total agribusiness	125	125	-	132	1	128	4
Rural residential real estate	255	419	-	269	3	260	9
Lease receivables	175	194	-	183	1	178	5
Total	<u>\$ 22,947</u>	<u>\$ 29,675</u>	<u>\$ -</u>	<u>\$ 24,171</u>	<u>\$ 214</u>	<u>\$ 23,407</u>	<u>\$ 741</u>
<b>Total impaired loans:</b>							
Real estate mortgage	\$ 16,609	\$ 19,322	\$ 331	\$ 17,495	\$ 155	\$ 16,942	\$ 536
Production and intermediate-term Agribusiness	27,875	35,628	2,736	29,363	260	28,435	900
Processing and marketing	90	90	-	95	1	92	3
Farm-related business	35	35	-	37	-	36	1
Total agribusiness	125	125	-	132	1	128	4
Rural residential real estate	601	752	133	633	6	613	20
Lease receivables	262	282	56	275	2	267	8
Total	<u>\$ 45,472</u>	<u>\$ 56,109</u>	<u>\$ 3,256</u>	<u>\$ 47,898</u>	<u>\$ 424</u>	<u>\$ 46,385</u>	<u>\$ 1,468</u>

	December 31, 2010			Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$ 2,834	\$ 4,472	\$ 235	\$ 2,527	\$ 50
Production and intermediate-term Agribusiness	12,176	12,717	1,656	10,855	220
Processing and marketing Farm-related business	-	-	-	-	-
Total agribusiness	-	-	-	-	-
Rural residential real estate	69	71	22	61	1
Lease receivables	-	-	-	-	-
Total	\$ 15,079	\$ 17,260	\$ 1,913	\$ 13,443	\$ 271
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 11,933	\$ 12,992	\$ -	\$ 10,638	\$ 216
Production and intermediate-term Agribusiness	15,730	20,886	-	14,023	283
Processing and marketing Farm-related business	984	1,019	-	877	18
Total agribusiness	40	47	-	35	1
Total agribusiness	1,024	1,066	-	912	19
Rural residential real estate	554	694	-	494	10
Lease receivables	279	298	-	249	5
Total	\$ 29,520	\$ 35,936	\$ -	\$ 26,316	\$ 533
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 14,767	\$ 17,464	\$ 235	\$ 13,165	\$ 266
Production and intermediate-term Agribusiness	27,906	33,603	1,656	24,878	503
Processing and marketing Farm-related business	984	1,019	-	877	18
Total agribusiness	40	47	-	35	1
Total agribusiness	1,024	1,066	-	912	19
Rural residential real estate	623	765	22	555	11
Lease receivables	279	298	-	249	5
Total	\$ 44,599	\$ 53,196	\$ 1,913	\$ 39,759	\$ 804

Unpaid principal balance represents the contractual principal balance of the loan.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at September 30, 2011 and December 31, 2010.

A summary of changes in the allowance for loan losses and period end recorded investment in loans at September 30, 2011 and December 31, 2010 is as follows:

September 30, 2011										
	Real Estate Mortgage	Production and Intermediate -term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Total		
<b>Allowance for credit losses:</b>										
Balance at December 31, 2010	\$ 1,713	\$ 5,938	\$ 398	\$ 72	\$ 143	\$ 144	\$ 64	\$ 8,472		
Charge-offs	(60)	(1,791)	-	-	-	(5)	(20)	(1,876)		
Recoveries	-	73	-	-	-	-	20	93		
Provision for loan losses	358	1,240	77	149	133	102	7	2,066		
Balance at September 30, 2011	\$ 2,011	\$ 5,460	\$ 475	\$ 221	\$ 276	\$ 241	\$ 71	\$ 8,755		
September 30, 2011 allowance ending balance:										
Loans individually evaluated for impairment	\$ 331	\$ 2,736	\$ -	\$ -	\$ -	\$ 133	\$ 56	\$ 3,256		
Loans collectively evaluated for impairment	\$ 1,680	\$ 2,724	\$ 475	\$ 221	\$ 276	\$ 108	\$ 15	\$ 5,499		
<b>Recorded investment in loans outstanding:</b>										
Ending Balance at September 30, 2011	\$ 559,508	\$ 563,260	\$ 92,348	\$ 39,232	\$ 16,133	\$ 23,975	\$ 2,285	\$ 1,296,741		
September 30, 2011 recorded investment ending balance:										
Loans individually evaluated for impairment	\$ 13,175	\$ 26,657	\$ 35	\$ -	\$ -	\$ 457	\$ 261	\$ 40,585		
Loans collectively evaluated for impairment	\$ 546,333	\$ 536,603	\$ 92,313	\$ 39,232	\$ 16,133	\$ 23,518	\$ 2,024	\$ 1,256,156		

December 31, 2010										
	Real Estate Mortgage	Production and Intermediate -term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including mission- related)	Total	
<b>Allowance for credit losses:</b>										
Balance at December 31, 2009	\$ 3,181	\$ 7,194	\$ 992	\$ 131	\$ 125	\$ 287	\$ 26	\$ -	\$ 11,936	
Charge-offs	(1,710)	(4,217)	(586)	-	-	(131)	(63)	-	(6,707)	
Recoveries	-	10	56	-	-	-	-	-	66	
Provision for loan losses	242	2,951	(64)	(59)	18	(12)	101	-	3,177	
Balance at December 31, 2010	\$ 1,713	\$ 5,938	\$ 398	\$ 72	\$ 143	\$ 144	\$ 64	\$ -	\$ 8,472	
December 31, 2010 allowance ending balance:										
Loans individually evaluated for impairment	\$ 235	\$ 1,656	\$ -	\$ -	\$ -	\$ 22	\$ -	\$ -	\$ 1,913	
Loans collectively evaluated for impairment	\$ 1,478	\$ 4,282	\$ 398	\$ 72	\$ 143	\$ 122	\$ 64	\$ -	\$ 6,559	
<b>Recorded investment in loans outstanding:</b>										
Ending Balance at December 31, 2010	\$ 551,274	\$ 563,433	\$ 105,550	\$ 41,011	\$ 19,074	\$ 25,833	\$ 3,570	\$ 4	\$ 1,309,749	
December 31, 2010 recorded investment ending balance:										
Loans individually evaluated for impairment	\$ 13,574	\$ 24,274	\$ 921	\$ -	\$ -	\$ 453	\$ 90	\$ -	\$ 39,312	
Loans collectively evaluated for impairment	\$ 537,700	\$ 539,159	\$ 104,629	\$ 41,011	\$ 19,074	\$ 25,380	\$ 3,480	\$ 4	\$ 1,270,437	

**NOTE 4 – COMMITMENTS AND CONTINGENT LIABILITIES**

Actions are pending against the Association in which money damages are sought. However, on the basis of information now at hand, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the overall financial position of the Association.

**NOTE 5 – EMPLOYEE BENEFIT PLANS**

The following is a table of retirement and other postretirement benefit expenses for the Association:

	<b>For the nine months ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Pension	\$ 2,303	\$ 2,066
401(k)	339	283
Other postretirement benefits	389	342
<b>Total</b>	<b>\$ 3,031</b>	<b>\$ 2,691</b>

The following is a table of retirement and other postretirement benefit contributions for the Association:

	<b>Actual YTD Through 9/30/11</b>	<b>Projected Contributions For Remainder of 2011</b>	<b>Projected Total Contributions 2011</b>
Pension	\$ 15	\$ 2,503	\$ 2,518
Other postretirement benefits	289	154	443
<b>Total</b>	<b>\$ 304</b>	<b>\$ 2,657</b>	<b>\$ 2,961</b>

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan’s Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2011.

Further details regarding employee benefit plans are contained in the 2010 Annual Report to Shareholders.

**NOTE 6 – FAIR VALUE MEASUREMENT**

Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association’s fair value disclosures for certain assets and liabilities measured at fair value on a recurring and

non-recurring basis. These assets and liabilities consist primarily of assets held in trust funds, standby letters of credit, impaired loans and other property owned.

This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association’s financial instruments within the fair value hierarchy are as follows:

**Level 1**

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association’s Level 1 assets at September 30, 2011, consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

**Level 2**

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis at September 30, 2011.

**Level 3**

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies or similar techniques and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose prices have been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at September 30, 2011 include impaired loans that represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other property owned is classified as a Level 3 asset at September 30, 2011. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at September 30, 2011 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at September 30, 2011 and December 31, 2010 for each of the fair value hierarchy levels:

	September 30, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>				
Assets held in trust funds	\$ 321	\$ -	\$ -	\$ 321
Total Assets	\$ 321	\$ -	\$ -	\$ 321
<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 268	\$ 268
Total Liabilities	\$ -	\$ -	\$ 268	\$ 268
<b>December 31, 2010</b>				
	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>				
Assets held in trust funds	\$ 440	\$ -	\$ -	\$ 440
Total Assets	\$ 440	\$ -	\$ -	\$ 440
<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 262	\$ 262
Total Liabilities	\$ -	\$ -	\$ 262	\$ 262

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2011 and 2010. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first nine months of 2011 and 2010.

	Standby Letters Of Credit
Balance at January 1, 2011	\$ 262
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases	-
Sales	-
Issuances	6
Settlements	-
Transfers in and/or out of level 3	-
Balance at September 30, 2011	\$ 268

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 365
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	27
Transfers in and/or out of level 3	-
Balance at September 30, 2010	\$ 392

#### Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis at September 30, 2011 and December 31, 2010 for each of the fair value hierarchy values are summarized below:

	September 30, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 19,176	\$ 19,176	\$ (3,126)
Other property owned	\$ -	\$ -	\$ 1,142	\$ 1,142	\$ (882)
<b>December 31, 2010</b>					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 13,166	\$ 13,166	\$ (3,632)
Other property owned	\$ -	\$ -	\$ 2,414	\$ 2,414	\$ (17)

**NOTE 7 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table presents the carrying amounts and fair values of the Association’s financial instruments at September 30, 2011 and December 31, 2010.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association’s financial instruments are as follows:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>				
Cash	\$ 77	\$ 77	\$ 355	\$ 355
Loans, net of allowance	\$1,287,986	\$ 1,301,962	\$ 1,301,273	\$ 1,296,794
Investment securities	\$ 2,442	\$ 3,023	\$ 2,396	\$ 2,597
Assets held in trust funds	\$ 321	\$ 321	\$ 440	\$ 440
<b>Financial liabilities:</b>				
Notes payable to AgFirst Farm Credit Bank	\$1,067,142	\$ 1,072,712	\$ 1,103,815	\$ 1,100,753

A description of the methods and assumptions used to estimate the fair value of each class of the Association’s financial instruments for which it is practicable to estimate that value follows:

- A. **Cash:** The carrying value is primarily a reasonable estimate of fair value.
- B. **Loans:** Because no active market exists for the Association’s loans, fair value is estimated by discounting the expected future cash flows using the Association’s current interest rates at which similar loans would be made to borrowers with similar credit risk. Discount rates are based on the Bank’s loan rates as well as management estimates.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated to be the carrying amount of the loan less specific reserves.

The book value of accrued interest, which has been included in the carrying amount of loans, approximates its fair value.

- C. **Investment in AgFirst Farm Credit Bank:** Estimating the fair value of the Association’s investment in the Bank is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 8.18 percent of the issued stock of the Bank as of September 30, 2011 net of any reciprocal investment. As of that date, the Bank’s assets totaled \$30.3 billion and shareholders’ equity totaled \$2.2 billion. The Bank’s earnings were \$295 million during the first nine months of 2011.

In addition, the Association has an investment of \$74 related to other Farm Credit institutions.

- D. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) that they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate, it is assumed the cash flow on the notes is equal to the principal payments on the Association’s loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association’s interest margin are used to fund operating expenses and capital expenditures.

The book value of accrued interest, which has been included in the carrying amount of notes payable, approximates its fair value.

- E. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.
- F. **Assets Held in Trust Funds:** See Note 5 for discussion of estimation of fair value for this instrument.

**NOTE 8 – SUBSEQUENT EVENTS**

The Association has evaluated subsequent events and has determined there are none requiring disclosure through November 7, 2011, which is the date the financial statements were issued.