*Ag***Choice** *Farm Credit, ACA*

THIRD QUARTER 2012

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2012 quarterly report of *Ag***Choice** 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 8, 2012

*Ag*Choice *Farm Credit, ACA*

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, 2012. 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, 2012, 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, 2012.

Allyn L. Lamb
Chief Executive Officer

Darrell L. Curtis
Chief Financial Officer &
Chief Operating Officer

November 8, 2012

*Ag*Choice *Farm Credit, ACA*

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 *Ag***Choice** Farm Credit ACA, (Association) for the period ended September 30, 2012. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2011 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, 2012, was $1,369,784, an increase of $71,228 as compared to $1,298,556 at December 31, 2011. Net loans outstanding at September 30, 2012, were $1,360,903 as compared to $1,290,468 at December 31, 2011. Net loans accounted for 96.2 percent of total assets at September 30, 2012, as compared to 95.4 percent of total assets at December 31, 2011.

The 5.5 percent increase in both gross and net loan volume during the reporting period is the result of improved market conditions in both our local service area and nationally.

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 decreased from $37,376 at December 31, 2011, to $29,571 at September 30, 2012 as a result of several large payoffs and a few accounts being reinstated to accruing status. 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 $8,881 and $8,088 at September 30, 2012 and December 31, 2011, respectively. Also at September 30, 2012, the Association booked a reserve for unfunded commitments of $1,120 related to a participation account. 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, 2012, the Association had loans amounting to $25,356 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, 2012

Net income for the three months ended September 30, 2012, totaled $7,263, as compared to $7,981 for the same period in 2011. Net interest income increased by $166 for the three months ended September 30, 2012, as compared to the third quarter in 2011.

At September 30, 2012, interest income on accruing loans increased $262 compared to a year ago as loan volume increased. Nonaccrual interest income was only $34 for the three months ended September 30, 2012, as compared to $421 for the same period in 2011. Interest expense decreased $291 for the three months ended September 30, 2012, as compared to the same period of 2011. The decrease in interest expense is mainly due to the decrease in rates seen in the market place.

A significant increase in the general reserves to address potentially emerging loan risks contributed to a $630 provision for loan losses in the third quarter of 2012.

Noninterest income for the three months ended September 30, 2012, totaled $3,427, as compared to $5,117 for the same period of 2011, a decrease of $1,690. This decrease resulted primarily from the following two factors; during the third quarter of 2012, the Association recorded $520 of reserves for unfunded commitments, and during the third quarter of 2011, the Association reversed a similar reserve of $1,048 that had been booked earlier in that year.

Noninterest expense for the three months ended September 30, 2012, increased $347 or 6.4 percent, compared to the same period of 2011. This increase is primarily due to higher personnel costs associated with increased staffing levels.

The provision for income taxes was $97 for the third quarter of 2012 as compared to a $65 provision in the same period last year.

For the nine months ended September 30, 2012

Net income for the nine months ended September 30, 2012, totaled $25,785, as compared to $23,693 for the same period in 2011. Net interest income increased $1,300 for the nine months ended September 30, 2012, as compared to the same period one year ago.

At September 30, 2012, interest income on accruing loans decreased $21 compared to a year ago. Nonaccrual interest income was $1,599 for the nine months ended September 30, 2012, as compared to $1,412 for the same period in 2011. Interest expense decreased $1,134 for the nine months ended September 30, 2012, as compared to the comparable period of 2011. The decrease in interest expense is primarily due to the decrease in rates seen in the market place during the past year.

Increased risk in the portfolio resulted in an increase in the Association's general reserves and an $876 provision for loan losses during 2012.

Noninterest income for the nine months ended September 30, 2012, totaled $12,539, as compared to $12,135 for the same period of 2011, an increase of $404. This increase resulted primarily from the following factors; the receipt of the $1,648 FCSIC refund in 2012 that was not received in 2011, losses on other property owned decreased by $456, other noninterest income which includes reserves for unfunded commitments decreased by $1,084, equity in earnings of other Farm Credit institutions decreased $438 due to less volume of loans sold to the Bank and loan fees were lower by $281.

Noninterest expense for the nine months ended September 30, 2012, increased $785, or 4.6 percent, compared to the same period of 2011. This increase was primarily due to higher personnel, purchased services, public and member relations and other expenses.

The provision for income taxes was $183 for the nine months ended September 30, 2012 as compared to $166 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, 2012, was $1,125,670 as compared to $1,075,338 at December 31, 2011. This increase resulted from growth in gross loan volume compared to the prior year end, offset by the receipt of the 2011 Equity in earnings of other Farm Credit institutions and cash generated from Association year-to-date 2012 earnings.

CAPITAL RESOURCES

Total members' equity at September 30, 2012, increased to $265,213 from the December 31, 2011, total of $247,495. The increase is primarily attributed to year-to-date 2012 net income.

Total capital stock and participation certificates were $10,883 on September 30, 2012, compared to $10,924 on December 31, 2011.

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, 2012, the Association's permanent capital and total surplus ratios were 17.03 percent and 16.25 percent, respectively, and the core surplus ratio was 14.45 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

For the nine months ended September 30, 2012, the FCA took no enforcement action against the Association.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *"Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements",* in the Notes to the Financial Statements, and the 2011 Annual Report to Shareholders for recently issued accounting pronouncements.

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*. 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*. 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

(dollars in thousands)	September 30, 2012 (unaudited)	December 31, 2011 (audited)
Assets		
Cash	$ 191	$ 334
Investment securities:		
Held to maturity (fair value of $2,698 and $2,565 respectively)	2,392	2,392
Loans	1,369,784	1,298,556
Less: allowance for loan losses	8,881	8,088
Net loans	1,360,903	1,290,468
Accrued interest receivable	6,648	5,539
Investments in other Farm Credit institutions	26,566	27,573
Premises and equipment, net	3,779	3,661
Other property owned	1,850	2,276
Due from AgFirst Farm Credit Bank	8,869	14,620
Other assets	3,069	5,474
Total assets	$ 1,414,267	$ 1,352,337
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,125,670	$ 1,075,338
Accrued interest payable	1,829	2,136
Patronage refunds payable	789	14,339
Other liabilities	20,766	13,029
Total liabilities	1,149,054	1,104,842
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	10,883	10,924
Retained earnings		
Allocated	121,485	128,951
Unallocated	132,866	107,637
Accumulated other comprehensive income (loss)	(21)	(17)
Total members' equity	265,213	247,495
Total liabilities and members' equity	$ 1,414,267	$ 1,352,337

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

AgChoice Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Interest Income				
Investment securities	$ 37	$ 37	$ 112	$ 112
Loans	16,750	16,875	51,160	50,994
Total interest income	16,787	16,912	51,272	51,106
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,418	6,709	19,247	20,381
Net interest income	10,369	10,203	32,025	30,725
Provision for loan losses	630	1,815	876	2,066
Net interest income after provision for loan losses	9,739	8,388	31,149	28,659
Noninterest Income				
Loan fees	409	556	1,347	1,628
Fees for financially related services	399	379	988	885
Patronage refunds from other Farm Credit institutions	2,968	3,135	9,811	10,249
Gains (losses) on other property owned, net	38	(42)	(508)	(964)
Gains (losses) on sales of rural home loans, net	91	43	163	179
Gains (losses) on sales of premises and equipment, net	17	16	46	30
Insurance Fund refunds	—	—	1,648	—
Other noninterest income (loss)	(495)	1,030	(956)	128
Total noninterest income	3,427	5,117	12,539	12,135
Noninterest Expense				
Salaries and employee benefits	4,075	3,700	12,258	11,736
Occupancy and equipment	342	343	963	932
Insurance Fund premiums	137	159	405	475
Other operating expenses	1,252	1,257	4,094	3,792
Total noninterest expense	5,806	5,459	17,720	16,935
Income before income taxes	7,360	8,046	25,968	23,859
Provision for income taxes	97	65	183	166
Net income	$ 7,263	$ 7,981	$ 25,785	$ 23,693

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

AgChoice Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Net income	$ 7,263	$ 7,981	$ 25,785	$ 23,693
Other comprehensive income net of tax				
Employee benefit plans adjustments	–	–	(4)	(3)
Comprehensive income	$ 7,263	$ 7,981	$ 25,781	$ 23,690

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

AgChoice Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings: Allocated	Retained Earnings: Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2010	$ 11,179	$ 121,535	$ 102,115	$ (5)	$ 234,824
Comprehensive income			23,693	(3)	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
Balance at December 31, 2011	$ 10,924	$ 128,951	$ 107,637	$ (17)	$ 247,495
Comprehensive income			25,785	(4)	25,781
Capital stock/participation certificates issued/(retired), net	(55)				(55)
Dividends declared/paid	14		(14)		–
Retained earnings retired		(8,014)			(8,014)
Patronage distribution adjustment		548	(542)		6
Balance at September 30, 2012	$ 10,883	$ 121,485	$ 132,866	$ (21)	$ 265,213

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

*Ag***Choice** *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 *Ag***Choice** 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, 2011, are contained in the 2011 Annual Report to Shareholders. These unaudited third quarter 2012 consolidated financial statements should be read in conjunction with the 2011 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, 2012, are not necessarily indicative of the results to be expected for the year ending December 31, 2012.

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, 2012 the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-05, "Comprehensive Income (Topic 220): 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 was 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 or (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. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). 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 did not impact the Association's financial condition or results of operations, but resulted in changes to the presentation of comprehensive income. In December 2011, the FASB issued guidance (ASU 2011-12; Topic 220) to defer the new requirement to present components of accumulated other comprehensive income reclassified as components of net income on the face of the financial statements. All other requirements in the guidance for comprehensive income were required to be adopted as set forth in the June 2011 guidance. The deferral is effective at the same time the new standard on comprehensive income is adopted.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): 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. The adoption of this guidance did not impact the Association's financial condition or results of operations, but resulted in significant additional disclosures.

In April 2011, the FASB issued ASU 2011-02, "Receivables (Topic 310): 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, 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.

In January 2011, the FASB issued ASU 2011-01, "Receivables (Topic 310): 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. The adoption of this guidance had no material impact on the Association's financial condition and results of operations but resulted in significant additional disclosures.

Other recently issued accounting pronouncements are discussed in the 2011 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, 2012 and December 31, 2011 follows.

	September 30, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 2,392	$ 306	$ –	$ 2,698	6.23%

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 2,392	$ 173	$ –	$ 2,565	6.23%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity at September 30, 2012 follows:

	September 30, 2012		
	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	2,698	6.23
Total	$ 2,392	$ 2,698	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, 2012 or December 31, 2011.

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, 2012.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans outstanding at period end were as follows:

	September 30, 2012	December 31, 2011
Real estate mortgage	$ 587,518	$ 561,818
Production and intermediate-term	599,389	559,801
Agribusiness		
Loans to cooperatives	7,598	10,136
Processing and marketing	67,099	62,047
Farm-related business	27,671	24,673
Total agribusiness	102,368	96,856
Communication	36,780	38,473
Energy	20,108	16,267
Rural residential real estate	22,522	23,659
Lease receivables	1,099	1,682
Total loans	$ 1,369,784	$ 1,298,556

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. Participation loan balances at period end were as follows:

	September 30, 2012							
	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	$ 5,250	$ 69,262	$ 17,300	$ 21	$ –	$ –	$ 22,550	$ 69,283
Production and intermediate-term	72,488	78,879	38,302	11,459	15,632	–	126,422	90,338
Agribusiness								
Loans to cooperatives	–	–	7,500	–	–	–	7,500	–
Processing and marketing	2,911	608	41,664	–	18,935	–	63,510	608
Farm-related business	–	2,546	–	–	3,741	–	3,741	2,546
Total agribusiness	2,911	3,154	49,164	–	22,676	–	74,751	3,154
Communication	1,329	–	35,539	–	–	–	36,868	–
Energy	2,434	–	17,673	–	–	–	20,107	–
Rural residential real estate	–	635	–	–	–	–	–	635
Lease receivables	–	–	1,032	–	–	–	1,032	–
Total	$ 84,412	$ 151,930	$ 159,010	$ 11,480	$ 38,308	$ –	$ 281,730	$ 163,410

	December 31, 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	$ 7,323	$ 73,960	$ 17,300	$ –	$ –	$ –	$ 24,623	$ 73,960
Production and intermediate-term	62,240	62,083	17,208	9,041	17,644	–	97,092	71,124
Agribusiness								
Loans to cooperatives	549	–	9,632	–	–	–	10,181	–
Processing and marketing	8,266	696	36,913	–	13,451	–	58,630	696
Farm-related business	–	3,520	–	–	680	–	680	3,520
Total agribusiness	8,815	4,216	46,545	–	14,131	–	69,491	4,216
Communication	1,329	–	37,333	–	–	–	38,662	–
Energy	2,435	–	13,878	–	–	–	16,313	–
Rural residential real estate	–	429	–	–	–	–	–	429
Lease receivables	–	–	1,709	–	–	–	1,709	–
Total	$ 82,142	$ 140,688	$ 133,973	$ 9,041	$ 31,775	$ –	$ 247,890	$ 149,729

Significant sources of liquidity for the Association are the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at September 30, 2012 and indicates that approximately 28.17 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	$ 18,900	$ 139,663	$ 428,955	$ 587,518
Production and intermediate-term	236,438	222,070	140,881	599,389
Agribusiness				
Loans to cooperatives	6,991	204	403	7,598
Processing and marketing	58,722	2,285	6,092	67,099
Farm-related business	7,756	9,756	10,159	27,671
Total agribusiness	73,469	12,245	16,654	102,368
Communication	36,732	48	–	36,780
Energy	18,276	269	1,563	20,108
Rural residential real estate	1,562	4,430	16,530	22,522
Lease receivables	443	480	176	1,099
Total Loans	$ 385,820	$ 379,205	$ 604,759	$ 1,369,784

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.

	September 30, 2012	December 31, 2011
Real estate mortgage:		
Acceptable	94.21%	90.78%
OAEM	2.29	4.69
Substandard/doubtful/loss	3.50	4.53
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	87.15%	84.52%
OAEM	6.62	10.28
Substandard/doubtful/loss	6.23	5.20
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	96.85%	85.40%
OAEM	3.15	14.60
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	96.42%	91.15%
OAEM	3.48	5.46
Substandard/doubtful/loss	0.10	3.39
	100.00%	100.00%
Farm-related business:		
Acceptable	79.15%	77.66%
OAEM	1.15	1.82
Substandard/doubtful/loss	19.70	20.52
	100.00%	100.00%
Total agribusiness:		
Acceptable	91.78%	87.09%
OAEM	2.83	5.48
Substandard/doubtful/loss	5.39	7.43
	100.00%	100.00%

	September 30, 2012	December 31, 2011
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	89.09%	86.53%
OAEM	10.91	13.47
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	92.51%	92.65%
OAEM	2.98	3.68
Substandard/doubtful/loss	4.51	3.67
	100.00%	100.00%
Lease receivables:		
Acceptable	75.48%	81.09%
OAEM	21.48	6.67
Substandard/doubtful/loss	3.04	12.24
	100.00%	100.00%
Total loans:		
Acceptable	90.98%	88.05%
OAEM	4.31	7.11
Substandard/doubtful/loss	4.71	4.84
	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest.

	September 30, 2012					
	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	$ 3,181	$ 3,696	$ 6,877	$ 584,228	$ 591,105	$ –
Production and intermediate-term	3,303	5,412	8,715	593,198	601,913	–
Agribusiness						
Loans to cooperatives	–	–	–	7,612	7,612	–
Processing and marketing	–	–	–	67,244	67,244	–
Farm-related business	820	4,005	4,825	22,946	27,771	–
Total agribusiness	820	4,005	4,825	97,802	102,627	–
Communication	–	–	–	36,847	36,847	–
Energy and water/waste disposal	–	–	–	20,151	20,151	–
Rural residential real estate	141	303	444	22,186	22,630	–
Lease receivables	–	34	34	1,075	1,109	–
Total	$ 7,445	$ 13,450	$ 20,895	$ 1,355,487	$ 1,376,382	$ –

	December 31, 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	$ 4,292	$ 6,669	$ 10,961	$ 553,591	$ 564,552	$ 134
Production and intermediate-term	2,895	8,729	11,624	550,391	562,015	20
Agribusiness						
Loans to cooperatives	–	–	–	10,154	10,154	–
Processing and marketing	–	–	–	62,158	62,158	–
Farm-related business	175	35	210	24,667	24,877	–
Total agribusiness	175	35	210	96,979	97,189	–
Communication	–	–	–	38,544	38,544	–
Energy and water/waste disposal	–	–	–	16,323	16,323	–
Rural residential real estate	190	65	255	23,512	23,767	–
Lease receivables	–	37	37	1,655	1,692	–
Total	$ 7,552	$ 15,535	$ 23,087	$ 1,280,995	$ 1,304,082	$ 154

The recorded investment in a 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 period end were as follows:

	September 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 7,018	$ 13,832
Production and intermediate-term	17,875	22,740
Agribusiness		
Processing and marketing	65	82
Farm-related business	4,158	210
Total agribusiness	4,223	292
Rural residential real estate	421	305
Lease receivables	34	207
Total nonaccrual loans	$ 29,571	$ 37,376
Accruing restructured loans:		
Real estate mortgage	$ 4,106	$ 516
Production and intermediate-term	6,480	2,925
Agribusiness		
Processing and marketing	–	–
Farm-related business	24	–
Total agribusiness	24	–
Rural residential real estate	–	–
Lease receivables	–	–
Total accruing restructured loans	$ 10,610	$ 3,441
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ 134
Production and intermediate-term	–	20
Agribusiness		
Processing and marketing	–	–
Farm-related business	–	–
Total agribusiness	–	–
Rural residential real estate	–	–
Lease receivables	–	–
Total accruing loans 90 days or more past due	$ –	$ 154
Total nonperforming loans	$ 40,181	$ 40,971
Other property owned	1,850	2,276
Total nonperforming assets	$ 42,031	$ 43,247
Nonaccrual loans as a percentage of total loans	2.16%	2.88%
Nonperforming assets as a percentage of total loans and other property owned	3.06%	3.32%
Nonperforming assets as a percentage of capital	15.85%	17.47%

The following table presents information relating to impaired loans (including accrued interest) at period end. 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, 2012	December 31, 2011
Impaired nonaccrual loans:		
Current as to principal and interest	$ 15,255	$ 18,178
Past due	14,316	19,198
Total impaired nonaccrual loans	29,571	37,376
Impaired accrual loans:		
Restructured	10,610	3,441
90 days or more past due	–	154
Total impaired accrual loans	10,610	3,595
Total impaired loans	$ 40,181	$ 40,971

The following tables present additional information concerning impaired loans and related allowance by loan type at period end.

	September 30, 2012			Quarter Ended September 30, 2012		Nine Months Ended September 30, 2012	
	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
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 137	$ 135	$ 43	$ 141	$ –	$ 139	$ 6
Production and intermediate-term	11,633	12,117	1,496	11,947	10	11,802	467
Agribusiness							
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–
Total agribusiness	–	–	–	–	–	–	–
Rural residential real estate	210	207	89	215	–	213	8
Lease receivables	–	–	–	–	–	–	–
Total	$ 11,980	$ 12,459	$ 1,628	$ 12,303	$ 10	$ 12,154	$ 481
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 10,987	$ 11,534	$ –	$ 11,283	$ 10	$ 11,146	$ 440
Production and intermediate-term	12,722	13,778	–	13,066	11	12,906	510
Agribusiness							
Processing and marketing	65	64	–	66	–	66	3
Farm-related business	4,182	4,087	–	4,295	4	4,243	168
Total agribusiness	4,247	4,151	–	4,361	4	4,309	171
Rural residential real estate	211	395	–	218	–	215	9
Lease receivables	34	85	–	35	–	34	1
Total	$ 28,201	$ 29,943	$ –	$ 28,963	$ 25	$ 28,610	$ 1,131
Total impaired loans:							
Real estate mortgage	$ 11,124	$ 11,669	$ 43	$ 11,424	$ 10	$ 11,285	$ 446
Production and intermediate-term	24,355	25,895	1,496	25,013	21	24,708	977
Agribusiness							
Processing and marketing	65	64	–	66	–	66	3
Farm-related business	4,182	4,087	–	4,295	4	4,243	168
Total agribusiness	4,247	4,151	–	4,361	4	4,309	171
Rural residential real estate	421	602	89	433	–	428	17
Lease receivables	34	85	–	35	–	34	1
Total	$ 40,181	$ 42,402	$ 1,628	$ 41,266	$ 35	$ 40,764	$ 1,612

	December 31, 2011			Year Ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 286	$ 284	$ 21	$ 320	$ 13
Production and intermediate-term	14,251	17,328	2,830	15,949	641
Rural residential real estate	65	70	26	73	3
Lease receivables	37	87	7	42	2
Total	$ 14,639	$ 17,769	$ 2,884	$ 16,384	$ 659
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 14,196	$ 15,441	$ –	$ 15,888	$ 639
Production and intermediate-term	11,434	17,223	–	12,797	515
Agribusiness					
Processing and marketing	82	82	–	92	4
Farm-related business	210	211	–	235	9
Total agribusiness	292	293	–	327	13
Rural residential real estate	240	408	–	269	11
Lease receivables	170	190	–	189	7
Total	$ 26,332	$ 33,555	$ –	$ 29,470	$ 1,185
Total impaired loans:					
Real estate mortgage	$ 14,482	$ 15,725	$ 21	$ 16,208	$ 652
Production and intermediate-term	25,685	34,551	2,830	28,746	1,156
Agribusiness					
Processing and marketing	82	82	–	92	4
Farm-related business	210	211	–	235	9
Total agribusiness	292	293	–	327	13
Rural residential real estate	305	478	26	342	14
Lease receivables	207	277	7	231	9
Total	$ 40,971	$ 51,324	$ 2,884	$ 45,854	$ 1,844

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

Commitments to lend additional funds to debtors classified as impaired were $2,600 at September 30, 2012 and $0 at December 31, 2011.

A summary of changes in the allowance for loan losses and recorded investment in loans at period end were as follows:

	Real Estate Mortgage	Production and Intermediate -term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Total
Allowance for credit losses:								
Balance at June 30, 2012	$ 1,389	$ 5,164	$ 817	$ 252	$ 325	$ 191	$ 9	$ 8,147
Charge-offs	(1)	(20)	(6)	–	–	–	–	(27)
Recoveries	1	130	–	–	–	–	–	131
Provision for loan losses	250	117	(96)	47	19	262	31	630
Balance at September 30, 2012	$ 1,639	$ 5,391	$ 715	$ 299	$ 344	$ 453	$ 40	$ 8,881
Balance at December 31, 2011	$ 1,380	$ 5,566	$ 543	$ 176	$ 271	$ 136	$ 16	$ 8,088
Charge-offs	(5)	(238)	(6)	–	–	(15)	–	(264)
Recoveries	6	175	–	–	–	–	–	181
Provision for loan losses	258	(112)	178	123	73	332	24	876
Balance at September 30, 2012	$ 1,639	$ 5,391	$ 715	$ 299	$ 344	$ 453	$ 40	$ 8,881
Balance at June 30, 2011	$ 1,707	$ 5,399	$ 586	$ 182	$ 262	$ 144	$ 75	$ 8,355
Charge-offs	(3)	(1,432)	–	–	–	–	–	(1,435)
Recoveries	–	–	–	–	–	–	20	20
Provision for loan losses	307	1,493	(111)	39	14	97	(24)	1,815
Balance at September 30, 2011	$ 2,011	$ 5,460	$ 475	$ 221	$ 276	$ 241	$ 71	$ 8,755
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
Loans individually evaluated for impairment	$ 43	$ 1,496	$ –	$ –	$ –	$ 89	$ –	$ 1,628
Loans collectively evaluated for impairment	1,596	3,895	715	299	344	364	40	7,253
Balance at September 30, 2012	$ 1,639	$ 5,391	$ 715	$ 299	$ 344	$ 453	$ 40	$ 8,881
Loans individually evaluated for impairment	$ 21	$ 2,830	$ –	$ –	$ –	$ 26	$ 7	$ 2,884
Loans collectively evaluated for impairment	1,359	2,736	543	176	271	110	9	5,204
Balance at December 31, 2011	$ 1,380	$ 5,566	$ 543	$ 176	$ 271	$ 136	$ 16	$ 8,088
Recorded investment in loans outstanding:								
Loans individually evaluated for impairment	$ 4,937	$ 15,959	$ 4,164	$ –	$ –	$ 210	$ –	$ 25,270
Loans collectively evaluated for impairment	586,168	585,954	98,463	36,847	20,151	22,420	1,109	1,351,112
Ending balance at September 30, 2012	$ 591,105	$ 601,913	$ 102,627	$ 36,847	$ 20,151	$ 22,630	$ 1,109	$ 1,376,382
Loans individually evaluated for impairment	$ 11,100	$ 20,578	$ 35	$ –	$ –	$ 171	$ 207	$ 32,091
Loans collectively evaluated for impairment	553,452	541,437	97,154	38,544	16,323	23,596	1,485	1,271,991
Ending balance at December 31, 2011	$ 564,552	$ 562,015	$ 97,189	$ 38,544	$ 16,323	$ 23,767	$ 1,692	$ 1,304,082

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about activity that occurred during the period presented, related to TDRs. The table does not include purchased credit impaired loans.

	Three months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 758	$ –	$ 758
Production and intermediate-term	–	2,538	–	2,538
Total	$ –	$ 3,296	$ –	$ 3,296

	Three months ended September 30, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 758	$ –	$ 758	$ –	$ –
Production and intermediate-term	–	2,515	–	2,515	(164)	(20)
Agribusiness						
Farm-related business	–	–	–	–	–	–
Total	$ –	$ 3,273	$ –	$ 3,273	$ (164)	$ (20)

	Nine months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 2,611	$ –	$ 2,611
Production and intermediate-term	–	4,004	–	4,004
Agribusiness				
Farm-related business	–	258	–	258
Total	$ –	$ 6,873	$ –	$ 6,873

	Nine months ended September 30, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 2,611	$ –	$ 2,611	$ –	$ –
Production and intermediate-term	–	3,981	–	3,981	(164)	(20)
Agribusiness						
Farm-related business	–	258	–	258	–	–
Total	$ –	$ 6,850	$ –	$ 6,850	$ (164)	$ (20)

	Three months ended September 30, 2011			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 3,528	$ –	$ –	$ 3,528
Production and intermediate-term	–	1,819	17	1,836
Total	$ 3,528	$ 1,819	$ 17	$ 5,364

Three months ended September 30, 2011						
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 3,528	$ –	$ –	$ 3,528	$ –	$ –
Production and intermediate-term	–	1,819	17	1,836	–	–
Total	$ 3,528	$ 1,819	$ 17	$ 5,364	$ –	$ –

Nine months ended September 30, 2011				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 3,827	$ 1,073	$ –	$ 4,900
Production and intermediate-term	2,782	12,003	1,245	16,030
Total	$ 6,609	$ 13,076	$ 1,245	$ 20,930

Nine months ended September 30, 2011						
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 3,827	$ 1,073	$ –	$ 4,900	$ (21)	$ –
Production and intermediate-term	2,766	12,011	1,245	16,022	2,484	(1,812)
Total	$ 6,593	$ 13,084	$ 1,245	$ 20,922	$ 2,463	$ (1,812)

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three months ended September 30, 2012	Nine months ended September 30, 2012
Defaulted troubled debt restructurings:		
Real estate mortgage	$ –	$ 136
Production and intermediate-term	669	1,194
Agribusiness		
Farm-related business	–	8
Total	$ 669	$ 1,338

TDRs outstanding at period end totaled $22,743 of which $12,133 were in nonaccrual status.

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:

	For the nine months ended September 30, 2012	2011
Pension	$ 2,381	$ 2,303
401(k)	356	339
Other postretirement benefits	310	389
Total	$ 3,047	$ 3,031

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

	Actual YTD Through 9/30/12	Projected Contributions For Remainder of 2012	Projected Total Contributions 2012
Pension	$ 15	$ 2,481	$ 2,496
Other postretirement benefits	315	85	400
Total	$ 330	$ 2,566	$ 2,896

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, 2012.

Further details regarding employee benefit plans are contained in the 2011 Annual Report to Shareholders.

NOTE 6 – FAIR VALUE MEASUREMENT

Fair value is defined 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.

Accounting 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.

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions 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 7.78 percent of the issued stock of the Bank as of September 30, 2012 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.8 billion and shareholders' equity totaled $2.5 billion. The Bank's earnings were $358 million for the first nine months of 2012. In addition, the Association has an investment of $103 related to other Farm Credit institutions.

The classifications 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, 2012 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. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

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, 2012.

The carrying value of accrued interest approximates its fair value.

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 price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. 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 values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves.
Level 3 assets 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. 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. 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.

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which 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. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

For investment securities, the fair value is determined by discounting the expected future cash flows using extrapolated interest rates for similar assets.

Other property owned is classified as a level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For 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; therefore, the related credit risk is not significant.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

	Standby Letters Of Credit
Balance at January 1, 2012	$ 293
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income	–
Purchases	–
Sales	–
Issuances	–
Settlements	(133)
Transfers in and/or out of level 3	–
Balance at September 30, 2012	$ 160

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

INFORMATION ABOUT SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investment Securities

The fair values of predominantly all level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments.

Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these level 3 assets.

Other Property Owned/Impaired Loans

Other property owned and impaired loans are valued using appraisals, market comparable sales, replacement costs and income and expense (cash flow) techniques. Certain unobservable inputs are used within these techniques to determine the level 3 fair value of these properties. The significant unobservable inputs are primarily sensitive only to industry, geographic and overall economic conditions, and/or specific attributes of each property.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Mission Related Investments	$ 2,698	Discounted cash flow	Risk adjusted spread	2.00% - 8.25%
Impaired loans and other property owned	$ 48,358	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment rates
		Probability of default
		Loss severity
		Annualized volatility
Investment securities, held-to-maturity	Discounted cash flow	Probability of default
		Risk adjusted discount rate
Accrued interest	Carrying value	Coupon interest rates
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment rates
		Probability of default
		Loss severity
		Annualized volatility

The following table presents the carrying amounts and fair values of assets and liabilities that are measured at fair value on a recurring and nonrecurring basis, as well as, those financial instruments not measured at fair value, for each of the hierarchy levels at the period ended:

	September 30, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 332	$ 332	$ –	$ –	$ 332	
Recurring Assets	$ 332	$ 332	$ –	$ –	$ 332	
Liabilities:						
Standby letters of credit	$ 160	$ –	$ –	$ 160	$ 160	
Recurring Liabilities	$ 160	$ –	$ –	$ 160	$ 160	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 46,283	$ –	$ –	$ 46,283	$ 46,283	$ 1,173
Other property owned	1,850	–	–	2,075	2,075	(256)
Nonrecurring Assets	$ 48,133	$ –	$ –	$ 48,358	$ 48,358	$ 917
Other Financial Instruments						
Assets:						
Cash	$ 191	$ 191	$ –	$ –	$ 191	
Investment securities, held-to-maturity	2,392	–	–	2,698	2,698	
Loans	1,314,620	–	–	1,322,721	1,322,721	
Accrued interest receivable	6,648	–	6,648	–	6,648	
Other Assets	$ 1,323,851	$ 191	$ 6,648	$ 1,325,419	$ 1,332,258	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,125,670	$ –	$ –	$ 1,130,197	$ 1,130,197	
Accrued interest payable	1,829	–	1,829	–	1,829	
Other Liabilities	$ 1,127,499	$ –	$ 1,829	$ 1,130,197	$ 1,132,026	

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

	December 31, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	$ 314	$ –	$ –	$ 314
Total assets	$ 314	$ –	$ –	$ 314
Liabilities:				
Standby letters of credit	$ –	$ –	$ 293	$ 293
Total liabilities	$ –	$ –	$ 293	$ 293

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2011 for each of the fair value hierarchy values are summarized below.

	December 31, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 11,697	$ 11,697	$ (3,673)
Other property owned	$ –	$ –	$ 2,604	$ 2,604	$ (851)

The estimated fair values of the Association's financial instruments at December 31, 2011 are as follows:

	December 31, 2011	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 334	$ 334
Loans, net of allowance	$ 1,290,468	$ 1,304,609
Accrued interest receivable	$ 5,539	$ 5,539
Investment securities	$ 2,392	$ 2,565
Assets held in trust funds	$ 314	$ 314
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 1,077,474	$ 1,082,372

NOTE 7 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Cumulative balances:

	Employee Benefit Plans
Balance at December 31, 2011	$ (17)
Other comprehensive income	(4)
Balance at September 30, 2012	$ (21)
Balance at December 31, 2010	$ (5)
Other comprehensive income	(3)
Balance at September 30, 2011	$ (8)

Changes in components of Accumulated Other Comprehensive Income are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Other Comprehensive Income and Reclassification Amounts:				
Amounts reclassified to net periodic pension costs	$ –	$ –	$ –	$ –
Net gain (loss) during period	–	–	(4)	(3)
Defined benefit post retirement plans, net	$ –	$ –	$ (4)	$ (3)

NOTE 8 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through November 8, 2012, which is the date the financial statements were issued.