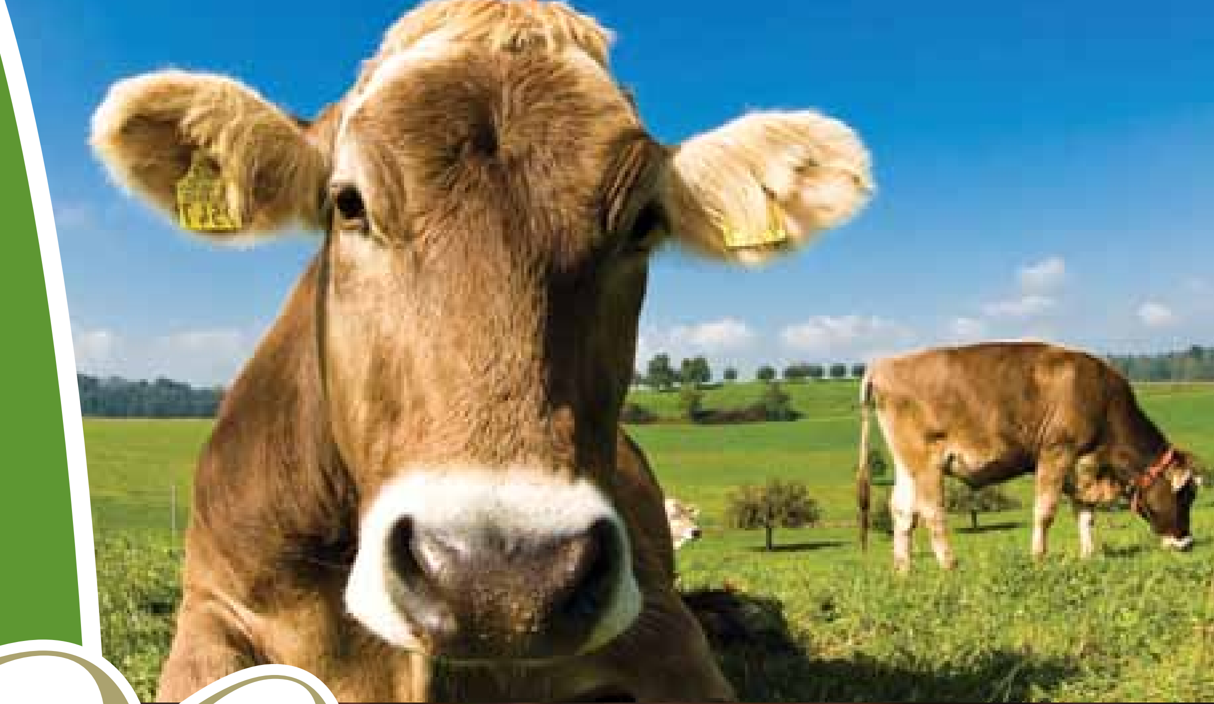

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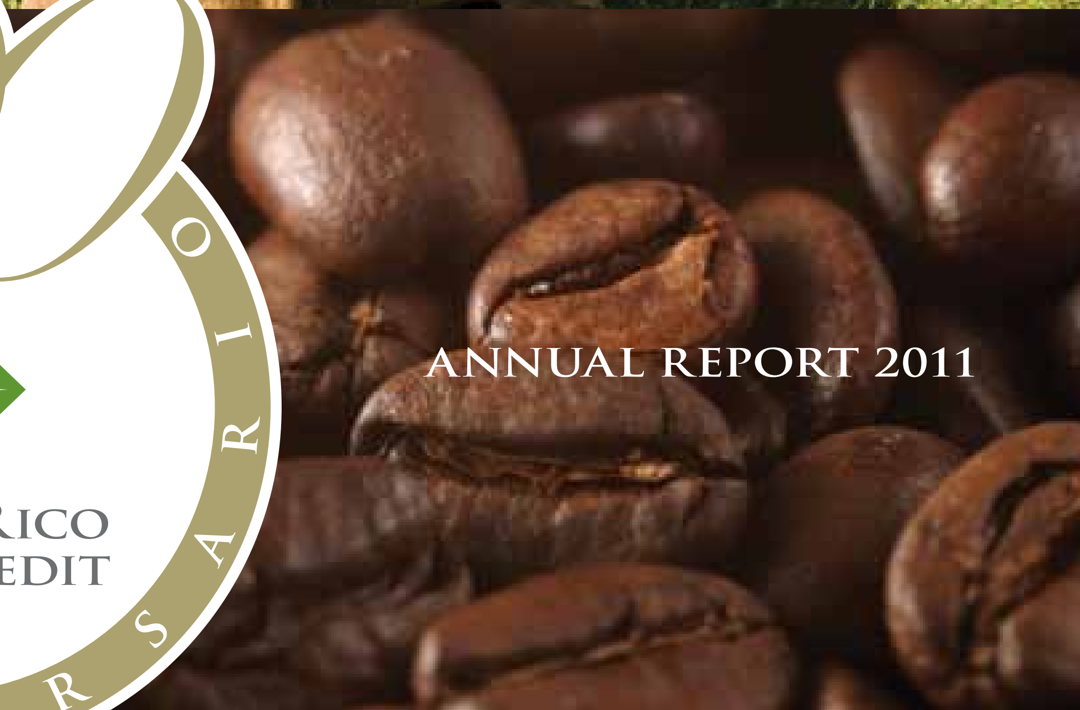
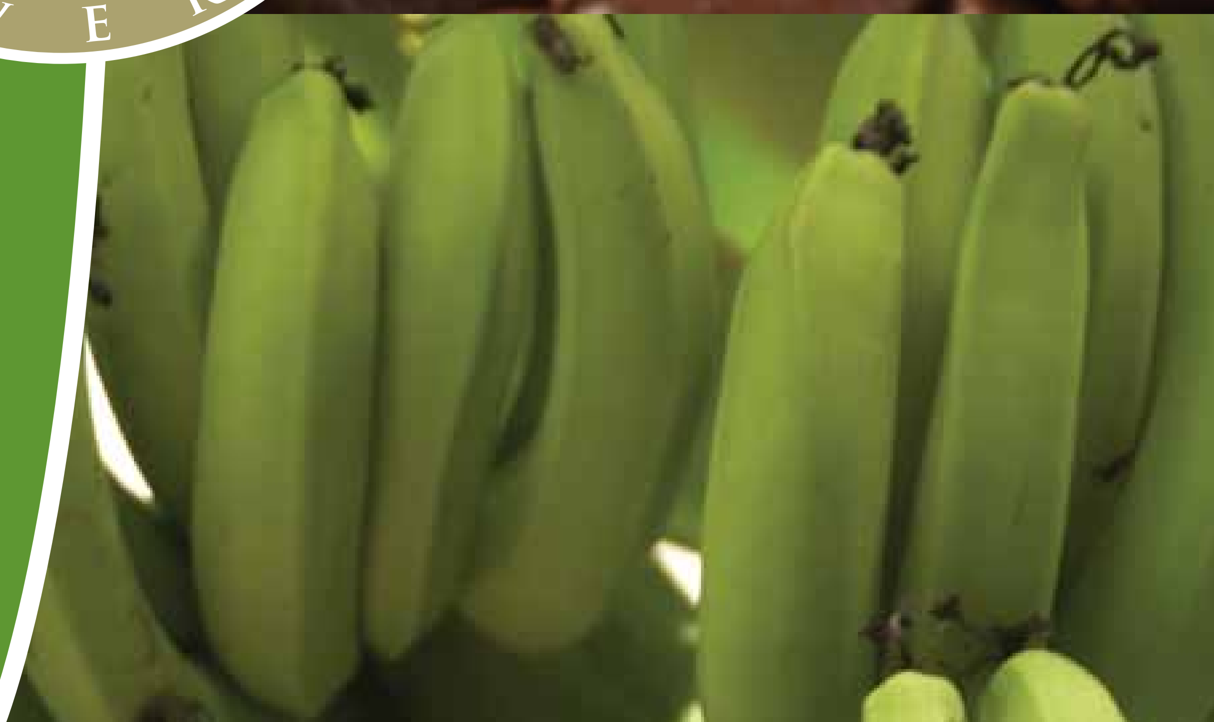
PUERTO RICO FARM CREDIT



ANNUAL REPORT 2011



PUERTO RICO FARM CREDIT, ACA

2011 ANNUAL REPORT

Contents

Management

Ricardo L. Fernández .... President and Chief Executive Officer
Victor Arroyo .... Vice President and Chief Credit Officer
Jorge A. Dulzaides .... Regional Lending Manager
Nydia J. Acevedo .... Controller

Board of Directors

Juan A. Santiago .... Chairman
Felipe Ozonas .... Vice Chairman
Carlos A. Rodríguez .... Director
Damián Rivera .... Director
Pablo Rodríguez .... Director
Robert G. Miller. .... Director
Victor Ayala. .... Director
Antonio E. Marichal .... External Director
Francisco Oramas .... External Director

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Message From the Chief Executive Officer

The year 2011 ended with several accomplishments, which, while not dramatic, were significant. For instance, Puerto Rico Farm Credit, ACA is reporting an increase in its net interest income, from $3,896,000 in 2010 to $4,141,000 in 2011; the provision for loan losses diminished considerably, from $9,390,000 in 2010 to $2,329,000 in 2011. These are both results of our initiatives to improve return on our assets and manage our loan portfolio risk. Our ending loan portfolio of $175,382,000 met our very realistic expectations for 2011 while our $992,000 operating loss fuels our desire to reach profitability in 2012.

Significant internal changes were also made during 2011, all geared to leverage market opportunities and improve our cost structure. We were able to increase the use of the District's resources to improve operational efficiency and recruited additional talent, vital to Puerto Rico Farm Credit's strategic objectives. While the Puerto Rico economic environment continues to be challenging, there is the certainty that the steps we have taken have already made a positive impact, as our 2011 Annual Report demonstrates. The staff is committed to continue improving your Association's performance in 2012.

Ricardo L. Fernández
Chief Executive Officer
Puerto Rico Farm Credit, ACA

March 13, 2012

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by the management of Puerto Rico Farm Credit, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been examined by independent certified public accountants, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2011 Annual Report of Puerto Rico 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.

Juan A. Santiago
Chairman of Board of Directors

Ricardo L. Fernandez
Chief Executive Officer

Antonio Marichal
Member of Board of Directors
Chairman of the Audit Committee

N J Acevedo

Nydia J. Acevedo
Controller

March 13, 2012

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 December 31, 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 December 31, 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 December 31, 2011.

Ricardo L. Fernández
Chief Executive Officer

Nydia J. Acevedo
Controller

March 13, 2012

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2011	2010	2009	2008	2007
Balance Sheet Data					
Cash	$ 164	$ 928	$ 162	$ 290	$ 130
Loans	175,382	188,406	227,226	260,905	250,019
Less: allowance for loan losses	3,482	4,003	2,720	1,254	330
Net loans	171,900	184,403	224,506	259,651	249,689
Notes receivable from other Farm Credit institutions	10,000	10,000	10,000	10,000	—
Investments in other Farm Credit institutions	2,706	3,162	3,679	3,517	3,399
Other property owned	2,489	2,443	521	—	73
Other assets	4,573	5,253	6,086	6,376	6,392
Total assets	$ 191,832	$ 206,189	$ 244,954	$ 279,834	$ 259,683
Notes payable to AgFirst Farm Credit Bank*	$ 143,364	$ 156,743	$ 187,237	$ 219,092	$ 197,926
Accrued interest payable and other liabilities with maturities of less than one year	671	690	1,515	3,088	4,767
Other liabilities with maturities of greater than one year	1,984	2,407	1,528	1,385	1,429
Total liabilities	146,019	159,840	190,280	223,565	204,122
Capital stock and participation certificates	648	679	721	779	819
Unallocated retained earnings	44,886	45,878	53,208	54,577	53,880
Accumulated other comprehensive income (loss)	279	(208)	745	913	862
Total members' equity	45,813	46,349	54,674	56,269	55,561
Total liabilities and members' equity	$ 191,832	$ 206,189	$ 244,954	$ 279,834	$ 259,683
Statement of Operations Data					
Net interest income	$ 4,141	$ 3,896	$ 4,545	$ 5,520	$ 6,493
Provision for loan losses	2,329	9,390	3,312	926	59
Noninterest income (expense), net	(2,804)	(1,850)	(2,093)	(1,927)	(2,310)
Net income (loss)	$ (992)	$ (7,344)	$ (860)	$ 2,667	$ 4,124
Key Financial Ratios					
Rate of return on average:					
Total assets	(0.50)%	(3.22)%	(0.33)%	1.00%	1.62%
Total members' equity	(2.14)%	(13.13)%	(1.54)%	4.67%	7.41%
Net interest income as a percentage of average earning assets	2.34%	1.95%	1.93%	2.18%	2.68%
Net (chargeoffs) recoveries to average loans	(1.560)%	(3.839)%	(0.755)%	—%	—%
Total members' equity to total assets	23.88%	22.48%	22.32%	20.11%	21.40%
Debt to members' equity (:1)	3.19	3.45	3.48	3.97	3.67
Allowance for loan losses to loans	1.99%	2.12%	1.20%	0.48%	0.13%
Permanent capital ratio	18.61%	20.84%	17.39%	16.96%	23.48%
Total surplus ratio	18.22%	20.49%	17.06%	16.74%	23.11%
Core surplus ratio	18.22%	20.49%	17.06%	16.74%	23.11%
Net Income Distribution					
Estimated patronage refunds:					
Cash	$ —	$ —	$ 615	$ 2,000	$ 3,250

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2012.*

Management's Discussion & Analysis of Financial Condition & Results of Operations

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Puerto Rico Farm Credit, ACA, (Association) for the year ended December 31, 2011 with comparisons to the years ended December 31, 2010 and December 31, 2009. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916, and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well-being of farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members served (also referred to throughout this Annual Report as stockholders or shareholders). The territory served by the Association covers the entire island of Puerto Rico. Refer to Note 1, "Organization and Operations," of the Notes to the Consolidated Financial Statements. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are on the Association's website, ***www.puertoricofarmcredit.com***, or may be obtained upon request free of charge by calling 1-800-981-3323, or writing Nydia J. Acevedo, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from the expectations and predictions due to a number of risks and uncertainties, many of which are beyond the Association's control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States, Puerto Rico and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in the United States and Puerto Rico governments support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies are critical to the understanding of the Association's results of operations and financial position because some accounting policies require the Board and management to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. These policies are critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant Accounting Policies, see Note 2, "Summary of Significant Accounting Policies," of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses — The allowance for loan losses is* management's best estimate of the amount of probable losses existing in and inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which generally considers relevant historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors. Management considers the allowance for loan losses to have been determined in accordance with generally accepted accounting principles appropriate to the periodic process utilized.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

  Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

- *Pensions* — The Bank and its related associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. A discount rate is used to determine the present value of the future benefit obligations.

PUERTO RICO ECONOMIC CONDITIONS

The economic conditions that have prevailed during the last 5 years continued in 2011 and are expected to continue as the economy still does not show signs of a full recovery. The first three quarters of 2011 showed signs of a stable economy with slight increases in sales at restaurants, grocery stores, furniture, electronic and other retail outlets, island tourism generated income also improved when compared to 2010. Economic indicators are still lower than in 2005, the last year of economic expansion in Puerto Rico.

The agricultural sector continues to play a small role in the island's economic activity. It accounts for approximately 3% of the labor force and less than 1% of GDP, although it has grown more rapidly than the GDP in the last five years due to the increases in the dairy and beef cattle sectors. However, the dairy industry, livestock and other ag sectors are facing challenges including, high feed costs and high debt levels which may affect overall production. The dairy industry continues to be regulated by government and the ACA will monitor potential structural modifications to the industry that may affect farm production. Declining milk consumption in recent years should stabilize and milk consumption is expected to remain stable in 2012. Fruits, particularly mangoes are grown for export and should continue to perform well. The Puerto Rico market will continue to be supplied with a large percentage of locally grown vegetables and 100% of home grown plantains and bananas.

Overall the agricultural sector is forecasted to remain stable to slightly improving. The island should continue to show slight economic improvement over the three year period, growing between .5 - 1%. Any downturn in the US economy may affect this forecast, especially if no significant foreign capital investments are made in the island.

The Board of Directors and management will continue to search for opportunities to fulfill the Association's public mission. With the prevailing economic environment, the Board remains cautious in the ACA's ability to quickly grow the portfolio and will focus on targeted marketing to viable farmers in sectors demonstrating the ability to grow and remain competitive in a changing marketplace.

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 through various product types.

The gross loan volume of the Association as of December 31, 2011 was $175,382 a decrease of $13,024 or 6.91 percent as compared to $188,406 at December 31, 2010 and compared to $227,226 at December 31, 2009 a decrease of $51,844 or 22.821 percent. Net loans outstanding (gross loans net of the allowance for loan losses) at December 31, 2011 were $171,900 as compared to $184,403 at December 31, 2010 and $224,496 at December 31, 2009. Net loans accounted for 89.61 percent of total assets on December 31, 2011 as compared to 89.43 percent of total assets on December 31, 2010 and 91.65 percent of total assets on December 31, 2009.

The diversification of the Association's loan volume by type for each of the past three years is shown below.

Loan Type	12/31/11	12/31/10	12/31/09
Real estate mortgage	64.57%	60.43%	56.60%
Production and intermediate term	18.60	16.35	18.20
Agribusiness:			
Loans to cooperatives	–	–	.02
Processing and marketing	3.74	8.08	11.54
Farm related business	.42	.70	.98
Communication	.72	2.75	2.20
Energy	1.41	1.44	1.26
Rural residential real estate	10.54	10.25	9.20
Total	100.00%	100.00%	100.00%

While the Association makes loans and provides financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, the loan portfolio is diversified. Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association's loan portfolio are shown below. The predominant commodities on the island were dairy, livestock, rural home and field crops, which constituted 58.2 percent of the entire portfolio at December 31, 2011.

	Percent of Portfolio		
Commodity Group	2011	2010	2009
Participations (net)	21.0%	25.6%	30.8%
Dairy	28.7	25.3	22.7
Livestock (Beef Cattle)	11.1	10.9	9.5
Rural Home	10.0	9.8	9.2
Field Crops (Vegetables)	8.4	7.7	8.0
Fruits	7.3	6.6	6.2
Misc. Real Estate	3.7	3.9	3.4
Ornamentals/Nursery	3.0	2.8	2.7
Poultry	1.7	2.1	2.2
Plantains	2.0	2.1	2.3
Coffee	1.8	1.6	1.5
Horses	0.6	0.9	0.8
Other	0.7	0.7	0.7
Total	100.0%	100.0%	100.0%

Repayment ability is closely related to the commodities produced by the Association's borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of island dairy producers. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's chartered territory. Even though the concentration of participation loans has steadily decreased during the past several years, the agricultural enterprise mix of these loans is diversified, as well as the geographic risk. Management and the Board of Directors continue to believe a major factor protecting the balance sheet and income statement is diversification, spreading both geographic and industry concentration risks.

The decrease in gross loan volume for the twelve months ended December 31, 2011 was due to decreases in both the on-island, chartered territory loan portfolio and the participation purchased loan portfolio. Additionally, the Association has participated part of its chartered territory loan portfolio to the Bank for several years. This action has resulted in reductions in the gross chartered territory loan's portfolio of $10,403, $10,464 and $12,110 at December 31, 2011, 2010 and 2009, respectively. The Association did not have any loans sold with recourse.

The Association has experienced changes in the composition of loan assets. The long-term real estate mortgage trend has been upward while the short and intermediate-term loan volume trend has been downward. This trend change was primarily the result of decreasing loan volume in the participation purchased portfolio, which carries shorter maturities related to commercial lending activities. At December 31, 2011, 2010 and 2009 the Association had no one single borrower that comprised more than 4.1 percent of loan volume.

During the past several years, the Association has had activity in the buying and selling of loan participations, both from within and outside of the System. This provides a means for the Association to spread geographic and credit concentration risks and realize non-patronage sourced interest and fee income, which strengthens the Association's capital position. However, the net effect of the increased activity has led the Association to reduce its portfolio since 2008. The following table presents the balances concerning the Association's participations purchased and sold portfolios that include the principal balance, unamortized premium and the net nonaccrual balances at December 31:

Loan Participations	2011	2010	2009
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 33,459	$ 45,343	$ 60,425
Participations Purchased – Non-FCS Institutions	3,908	5,854	11,525
Total Participations Purchased	$ 37,367	$ 51,197	$ 71,950
Participations Sold	$ 10,403	$ 10,464	$ 12,110

As part of the non-FCS participation portfolio, the Association has purchased participation interests in loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing geographic risk and managing surplus funds as allowable under FCA regulations. At December 31, 2011, the balance of these loans (including unamortized premium) was $3,908 compared to $5,854 at December 31, 2010 and $8,511 at December 31, 2009.

The participations sold portfolio belongs from the dairy and fruit commodities of the chartered territory loans that are not related with the participations purchased portfolio.

MISSION-RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot under the mission-related investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the associations of the AgFirst District to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as loans or investments on the Consolidated Balance Sheets depending on the nature of the investment. Since December 31, 2010 the Association had no outstanding Rural America Bonds, included as loans on the Consolidated Balance Sheets compared to $973 in December 31, 2009.

NOTES RECEIVABLE-OTHER FARM CREDIT INSTITUTIONS

In September 2008, the Association used capital reserves to purchase $10,000 total of fixed rate unsecured subordinated notes issued by two other associations in the District, both notes due in 2018 with a prepayment option beginning in October 2013. The notes receivable are subordinated to all other categories of creditors of the issuing associations, including any claims of the Bank and general creditors, but are senior to all classes of shareholders of the issuing associations. The notes receivable are not considered System debt, and thus are not guaranteed by the System and not insured by the Insurance Corporation. Since the notes receivable are only guaranteed by the two issuing associations, repayment could be negatively impacted by funding, credit, and/or counterparty risks encountered by the two issuing associations in their business operations. As of the end of 2011, one of the two associations' credit portfolio was considered by management to maintain higher risk than average when the debt was purchased. If this note receivable were an eligible loan, it would be a criticized loan impacting the Association's liquidity and ability to fund loan growth. As of the release date of this report, the above-referenced association has requested permission from the regulator and district bank to merge with another association from the district, which would improve the associations' risk profile to acceptable. The second association's loan portfolio maintains an acceptable credit risk profile as of the end of 2011. Management may consider in the near future that it carries higher risk than average. Management still expects to collect all interest and principal as contracted from both associations. It will also continue to inform the Board of Directors on the financial performance of the Associations on a quarterly basis.

The notes receivable bear interest at an annual fixed rate of 9.00 percent, payable on the fifteenth day of each month, beginning on October 15, 2008. For the twelve months ended December 31, 2011, the Association recognized $900 as interest income. During 2012, management projects that the Association will continue to accrue $900 annually as interest income from the notes receivable. For more information related to notes receivable-other Farm Credit Institutions, see Note 5 of the Notes to the Consolidated Financial Statements.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- *Character – borrower integrity and credit history*
- *Capacity – repayment capacity of the* borrower based on cash flows from operations or other sources of income
- *Collateral* – protection for the lender in the event of default and a potential secondary source of repayment
- *Capital* – ability of the operation to survive unanticipated risks
- *Conditions* – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Under FCA regulations, appraisals are required for real estate mortgage loans of more than $250,000. The Association requires an appraisal for all real estate mortgage loans, no matter the size. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

Management reviews the credit quality of the loan portfolio on an ongoing basis as part of the Association's risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- *Acceptable* – Assets are expected to be fully collectible and represent the highest quality.
- *Other Assets Especially Mentioned (OAEM)* – Assets are currently collectible but exhibit some potential weakness.
- *Substandard* – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- *Doubtful* – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- *Loss* – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2011	2010	2009
Acceptable & OAEM	85.84%	87.25%	87.86%
Substandard	14.16	12.75	12.14
Doubtful	–	–	–
Loss	–	–	–
Total	100.00%	100.00%	100.00%

The higher adverse level of the substandard asset quality category during 2011 and 2010 was a direct result of the weaker economies, both in Puerto Rico and the US mainland. Credit quality deterioration for production agriculture was a result of reduced profitability largely driven by higher input costs (fuel, feed, and electricity). Additionally, loans tied to housing, either through construction or development, have seen demand plummet and profitability decline resulting in downgrades of the assigned credit risk rating.

NONPERFORMING ASSETS

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

	12/31/11	12/31/10	12/31/09
	(dollars in thousands)		
High-risk Assets			
Nonaccrual loans	$ 16,935	$ 13,923	$ 19,107
Restructured loans	4,021	–	–
Accruing loans 90 days past due	–	34	–
Total high-risk loans	20,956	13,957	19,107
Other property owned	2,489	2,443	521
Total high-risk assets	$ 23,445	$ 16,400	$ 19,628
Ratios			
Nonaccrual loans to total loans	9.66%	7.39%	8.41%
High-risk assets to total assets	12.22%	7.95%	8.01%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. Nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $3,012 or 21.63 percent in 2011. Of the $16,935 in nonaccrual loan volume at December 31, 2011, $1,379 or 8.14 percent as compared to $5,474 or 39.32 percent, and $6,534 or 34.20 percent at December 31, 2010 and 2009, respectively, was considered current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower. During 2011, two chartered territory loans were restructured totaling $4,021. The association did not compromise any amount owed as part of the restructure in either case. Both loans are current and paying as agreed as of December 31, 2011.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses was $3,482 at December 31, 2011, as compared with $4,003 and $2,720 at December 31, 2010 and 2009, respectively.

The following table presents the activity in the allowance for loan losses for the most recent three years:

Allowance for Loan Losses Activity:	2011	2010	2009
	(dollars in thousands)		
Balance at beginning of year	$ 4,003	$ 2,720	$ 1,254
Charge-offs:			
Real Estate Mortgages	(423)	(2,273)	(83)
Production and intermediate term	(702)	(5,360)	(866)
Agribusiness	(1,739)	(488)	(897)
Rural Residential Real Estate	(1)	–	–
Total charge-offs	(2,865)	(8,121)	(1,846)
Recoveries:			
Real Estate Mortgages	15	14	–
Total recoveries	15	14	–
Net (charge-offs) recoveries	(2,850)	(8,107)	(1,846)
Provision for (reversal of allowance for) loan losses	2,329	9,390	3,312
Balance at end of year	$ 3,482	$ 4,003	$ 2,720
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(1.560)%	(3.839)%	(0.755)%

The allowance for loan losses by loan type for the most recent three years is as follows:

		December 31,	
Allowance for Loan Losses by Type	2011	2010	2009
	(dollars in thousands)		
Real estate mortgage	$ 1,359	$ 1,107	$ 283
Production and intermediate term	657	153	44
Agribusiness	1,273	2,579	2,330
Communication	7	17	19
Energy	2	7	7
Rural residential real estate	184	140	37
Total allowance	$ 3,482	$ 4,003	$ 2,720

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

		December 31,	
Allowance for Loan Losses as a Percentage of:	2011	2010	2009
Total loans	1.99%	2.13%	1.20%
Nonperforming loans	20.56%	24.41%	14.24%
Nonaccrual loans	20.56%	28.75%	14.24%

RESULTS OF OPERATIONS

For the year ended December 31, 2011, the Association incurred a net loss from operations which totaled $(992) an increase of $6,352 as compared to a net loss of $(7,344) for the same period of 2010 and a decrease of $132 as compared to $(860) for the same period of 2009. Total interest income for the year ended December 31, 2011 was $7,653 a decrease of $495 or 6.08 percent as compared to $8,148 for the same period of 2010. Total interest income decreased by $2,049 or 21.12 percent for the period ended December 31, 2010 compared to December 31, 2009.

Major components of the change in net income for the past two years are outlined in the following table:

Change in Net Income:	2011-2010	2010-2009
	(dollars in thousands)	
Net income (prior year)	$ (7,344)	$ (860)
Increase (decrease) in net income due to:		
Interest income	(495)	(1,554)
Interest expense	740	905
Net interest income	245	(649)
Provision for loan losses	7,061	(6,078)
Noninterest income	(984)	435
Noninterest expense	28	(190)
Provision for income taxes	2	(2)
Total changes in income	6,352	(6,484)
Net income/(loss)	$ (992)	$ (7,344)

Net Interest Income

Net interest income was $4,141, $3,896 and $4,545 in 2011, 2010 and 2009, respectively. Net interest income from loans was the principal source of earnings for the Association and was impacted by volume, yields on assets and cost of debt. Additionally, net interest income was negatively impacted by the amortization of premium paid to acquire USDA guaranteed loans in the secondary market place. Premium amortization expense was $116, $191 and $260 in 2011, 2010 and 2009, respectively. However, net interest income was enhanced by the notes receivable from other Farm Credit Institutions. Net interest income from notes receivable was $263 since 2009.

The effects of changes in average volume and interest rates on net interest income are summarized in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Other	Total
			(dollars in thousands)		
12/31/11 – 12/31/10					
Interest income	$ (882)	$ 438	$ (50)	$ (1)	$ (495)
Interest expense	(525)	(214)	–	(1)	(740)
Income	$ (357)	$ 652	$ (50)	$ –	$ 245
12/31/10 – 12/31/09					
Interest income	$ (1,723)	$ 280	$ (112)	$ 1	$ (1,554)
Interest expense	(841)	(65)	–	1	(905)
Income	$ (882)	$ 345	$ (112)	$ –	$ (649)

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

Please refer to the Consolidated Five-Year Summary of Selected Financial Data in this Annual Report to review key financial ratios pertaining to earnings and net interest income.

For the twelve months of 2011, the Association recognized provision for loan losses expense which totaled $2,329, compared to $9,390 and $3,312 for the twelve months of 2010 and 2009, respectively. During 2011, the Association included $2,732 of specific reserves in the provision expense for loans classified as impaired under FASB guidance, "Accounting by Creditors for Impairment of a Loan," as compared to $8,003 of specific reserves during 2010 and $2,319 during 2009.

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended December 31, 2011	2010	2009	Percentage Increase/(Decrease) 2011/2010	2010/2009
	(dollars in thousands)				
Loan fees	$ 372	$ 342	$ 352	8.77%	(2.84)%
Patronage Rebate Fees	230	226	233	1.77	(3.00)
Patronage refunds from other Farm Credit Institutions	1,576	1,768	1,845	(10.86)	(4.17)
Other noninterest income	55	73	45	(24.66)	62.22
Insurance Fund refund	–	704	–	(100.00)	–
Gains (losses) on other property owned	(218)	(114)	89	91.23	(228.09)
Total noninterest income	$ 2,015	$ 2,999	$ 2,564	(32.81)%	16.97%

Regarding patronage refunds received from other Farm Credit Institutions, the Association received $1,194 in two patronage refunds from the Bank and $382 in special dividend distributions from the Bank for the year ended December 31, 2011. This compared to $1,340 in two patronage refunds from the Bank and $428 in a special dividend distribution from the Bank for the year ended December 31, 2010 and $1,599 in patronage refunds and $246 special dividend distribution for 2009. Additionally, during 2010, the Association received two refunds from the Farm Credit System Insurance Corporation (FCSIC) which totaled $704. It is not known whether the FCSIC will make any distributions in future years.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended December 31, 2011	2010	2009	Percentage Increase/(Decrease) 2011/2010	2010/2009
	(dollars in thousands)				
Salaries and employee benefits	$ 3,151	$ 3,388	$ 3,212	5.48%	5.48%
Occupancy and equipment	296	251	266	(5.64)	(5.64)
Insurance Fund premiums	99	100	392	(74.49)	(74.49)
Other operating expenses	1,273	1,108	787	28.97	28.97
Total noninterest expense	$ 4,819	$ 4,847	$ 4,657	4.08%	4.08%

Salaries and employee benefits expense decreased in 2011 primarily due to a decrease in the salaries of the new senior officers compared with prior years. However, the other operating expenses increased by more than $165 mainly due to $137 expenses incurred to comply with the FCA Supervisory Agreement with the Board of Directors of the Association dated March 17, 2011.

Income Taxes

The Association recorded no provision for federal income tax for 2011, 2010 or 2009. However, during 2010 not all eligible patronage sourced income was distributed from 2009, resulting in $2 of federal income tax expense. The Association is exempt from Puerto Rico income tax under Article 23 of the General Cooperative Act of 2004. Please refer to Note 2(H), Income Taxes, for more specific information.

Key Results of Operations Comparisons

Key results of operations comparisons for the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/11	For the 12 Months Ended 12/31/10	For the 12 Months Ended 12/31/09
Return on Average Assets	(0.50)%	(3.22)%	(0.33)%
Return on Average Members' Equity	(2.14)%	(13.13)%	(1.54)%
Net Interest Income as a Percentage of Average Earning Assets	2.34%	1.95%	1.93%
Net (Charge-offs) Recoveries to Average Loans	(1.56)%	(3.84)%	(0.76)%

The Association's financial goals are operating within safe and sound parameters while generating sufficient income to maintain a highly capitalized Association and to declare and pay an attractive patronage dividend to the members/borrowers of the Association. To accomplish this, the Association must achieve its objectives, which include attracting and retaining quality volume, which is competitively priced, while effectively managing risk within the balance sheet and income statement.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA 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 the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. 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 Association's capital level effectively creates a borrowing margin between the amount of loans outstanding and the direct loans to the Bank. The margin is commonly referred to as "loanable funds."

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The Association's liquidity practice is to maintain cash balances in a local depository bank at a level that maximizes reduction of the direct note by increasing loanable funds. As borrower payments are received, they are immediately applied to the respective notes payable to the Bank. The Association's participation in investments and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in the Association experiencing a liquidity deficiency.

Total notes payable to the Bank at December 31, 2011 were $143,364 as compared to $156,743 at December 31, 2010 and $187,237 at December 31, 2009. The decrease of $13,379 or 8.54 percent closely corresponds to the decrease in loans during 2011. The average volume of notes payable to the Bank was $149,298 and $170,347 for the years ended December 31, 2011 and 2010, respectively. Refer to Note 8, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

The Association had no available lines of credit from third party financial institutions as of December 31, 2011.

The Association failed to meet its financial covenant at December 31, 2011. The default allowed the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. During the first quarter of 2012, the Bank approved a temporary waiver of the December 31, 2011 default. The Bank has allowed the Association to continue to operate under special credit agreement (SCA) pursuant to its GFA. On February 29, 2012, the Bank granted an extension of the SCA to the Association through April 30, 2012. The extension requires the Association to meet interim financial covenants and included additional non-financial requirements. The SCA is subject to earlier termination in accordance with the terms of the Agreement.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to either the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Fixed rate loans are priced based on the current cost of Farm Credit System debt of similar terms to maturity. The Association does not offer or include adjustable rate mortgages (ARMS) in its portfolio of loan products.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

RELATIONSHIP WITH THE BANK

The Association's statutory obligation to borrow only from the Bank is discussed in Note 8, "Notes Payable to AgFirst Farm

Credit Bank" of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's ability to access capital of the Association is discussed in Note 4 of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding Sources" section of this Management's Discussion and Analysis and in Note 8, "Notes Payable to AgFirst Farm Credit Bank" included in this Annual Report.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future loan growth and investment in new products and services, as they may become available.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan. There were no material changes to the capital plan for 2011 that affected the minimum stock purchase requirement or would have had an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2011 decreased $536 or 1.16 percent to $45,813 from the December 31, 2010 total of $46,349. At December 31, 2010 total members' equity decreased 15.23 percent or $8,325 from the December 31, 2009 total of $54,674. The decrease in the total members' equity was primarily due to the net loss from operations, directly related to the material provision for loan losses and related charge-offs experienced since 2010. For 2011, the Association recorded a consolidated net loss from operations of $(992). The holding company financial statements for the FLCA subsidiary showed net loss of $(959) and the ACA subsidiary reflected a net loss of $(33). Additionally, for 2011 and 2010, total members' equity changed by $487 and $(953), respectively, which were the net incremental adjustments recorded as Accumulated Other Comprehensive Income (Loss) from adopting the provisions of FASB guidance, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The adoption of this guidance had no effect on the Consolidated Statements of Operations for the years ended December 31, 2011 and 2010. Refer to Note 11, "Employee Benefit Plans," of the Notes to the Consolidated Financial Statements for additional information on the adoption of this guidance during 2007.

Total capital stock and participation certificates were $648 on December 31, 2011, compared to $679 on December 31, 2010 and $721 on December 31, 2009. The Board of Directors continued its commitment to maintain the cooperative equity investment requirement at the regulatory minimum of 2.0 percent of the original loan or $1,000, whichever is less.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all three ratios.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2011	2010	2009	Regulatory Minimum
Permanent Capital	18.61%	20.84%	17.39%	7.00%
Total Surplus	18.22%	20.49%	17.06%	7.00%
Core Surplus	18.22%	20.49%	17.06%	3.50%

The increase in the Association's permanent capital, total surplus and core surplus ratios since December 31, 2009 was primarily attributable to a decrease in calculated risk weighted assets each year. The FCA's approval of the Association's investment in notes receivable from other Farm Credit institutions in 2009 required it to deduct the total amount of the investment from the amount of permanent capital. However, due to the significant provision expense recorded at the end of 2011 which resulted in a loss from operations negatively impacting the unallocated retained surplus of the Association, the average amount of permanent capital used to calculate the ratio will be materially lower during 2012. Management expects that even though the Association's permanent capital ratio will decline during 2012, it would not affect the Association's ability to meet the FCA's regulatory minimum capital standards and capital adequacy requirements.

See Note 9, "Members' Equity," of the Notes to the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, if necessary, to increase surplus to meet Association capital adequacy standards, to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to the Association's FLCA subsidiary earned on a non-patronage basis, the remaining taxable earnings of the Association are eligible for allocation and distribution to eligible borrowers. Refer to Note 9, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distribution. The Association declared estimated patronage distributions of $0 in 2011 and 2010; and $615 in 2009.

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. The Association has established annual marketing goals to increase its market share of loans to YBS farmers because of the unique needs of these individuals and their importance to the future growth of the

Association. Specific marketing plans have been developed to target these groups and resources have been designated to help ensure YBS borrowers have access to a stable source of credit.

The following table outlines the Association YBS 2011 goal and actual number of loans and dollar amount (in thousands) in the loan portfolio as of December 31, 2011:

	Number of Loans		$ Amount of Loans	
	2011 Goal	2011 Actual	2011 Goal	2011 Actual
Young	83	84	$11,744	$13,209
Beginning	300	287	$42,494	$35,892
Small	350	344	$45,475	$37,478

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2007 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory there were 15,745 reported farmers of which by definition 720 or 4.57 percent were Young and 4,785 or 30.39 percent were Beginning. The Puerto Rico census does not make available data which identifies and classifies Small farmers. Comparatively, as of December 31, 2011, the demographics of the Association's agricultural portfolio contained 855 loans, of which by definition 84 or 9.82 percent were Young, 287 or 33.57 percent were Beginning and 344 or 40.23 percent were Small. The 2011 number and volume results for young farmers surpassed the 2011 goal, while the beginning and small farmer results on number of loans shows a decrease mainly attributed to normal amortization, loan repayment as well as farmers that no longer fit the YBS parameters.

The following table outlines the Association YBS goal and the actual results for both number and dollar amount (in thousands) of new loans for the year ended December 31, 2011:

	Number of Loans		$ Amount of New Loans	
	2011 Goal	2011 Actual	2011 Goal	2011 Actual
Young	2	9	$772	$1,498
Beginning	7	16	$965	$2,105
Small	7	18	$482	$2,259

The following table outlines the Association YBS goal and the actual results as a percentage of number and dollar amount (in thousands) of new loans for the year ended December 31, 2011:

	Number of Loans		$ Amount of New Loans	
	2011 Goal	2011 Actual	2011 Goal	2011 Actual
Young	8%	7%	8%	4%
Beginning	15%	13%	10%	8%
Small	15%	15%	5%	4%

During 2011 the Association supported Young, Beginning and Small farmers through outreach and financial support programs. Education is at the heart of the programs, and includes seminars, speaking opportunities and training sessions, which are conducted throughout the year. These educational opportunities may be both in-house, in the form of events held by the Association, and external, in which case, the Association is a speaker or provider of educational materials. The Association website includes a section of information and resources for YBS visitors to the site.

A second focus area of the program includes activities where the Association sponsors local events or events where the Association is an exhibitor and/or a participant (such as industry or trade shows). Financial support addresses the specific credit programs and partnerships that the Association has developed to help small farmers, young farmers, and farmers just starting out. It comprises programs such as those offered by the Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers

The following outreach programs were conducted during 2011 in the Association's efforts to achieve established goals:

- utilization of AgScore (credit score lending for small loan borrowers);
- experienced credit staff coordinated/participated in the development and implementation of business financial skills training for YBS farmers;
- supported and/or sponsored programs and activities with the University of Puerto Rico; and
- participated in various educational programs coordinated by the Department of Agriculture, Associacion de Agricultores and /or the Agronomist Association.

The Regional Lending Manager coordinates the Association's efforts, and oversees the YBS program. The Association includes YBS goals in the annual strategic business plan, and reports on those goals and achievements to the board of directors on a quarterly basis.

The Association is committed to the future success of Young, Beginning and Small farmers.

* *Young farmers* are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** *Beginning farmers* are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** *Small farmers* are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

Supervisory Agreement

On March 17, 2011 the Farm Credit Administration (FCA) entered into a written Supervisory Agreement (SA) with the Board of Directors of the Association. This agreement supersedes FCA Supervisory Letters dated July 23, 2009, March 2, 2010, and December 10, 2010 and incorporates certain requirements from these letters. The Supervisory Agreement requires the Board of Directors to take certain corrective and precautionary measures with respect to some Association practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality, allowance for loan losses and collateral risk management, and capital markets and participation activities. In addition, the SA prohibits the Association from distributing patronage-sourced income without FCA consent.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, high turnover in senior management, perceived weaknesses in board governance, and, reduced earnings and liquidity. The Board of Directors and the Association have worked during the year to reach several milestones. On October 4, 2011, FCA communicated in a letter to the board that efforts had led to an overall rating of "partial compliance" with the agreement and encouraged the board to continue working towards achieving full compliance with the agreement. On February 14, 2012, again FCA communicated in a letter to the Board that it had achieved incremental progress towards complying with the Agreement but that improved business results had not yet materialized. The Association had achieved full compliance in 4 out 17 items, substantial compliance in 6 out of 17 items and partial compliance in 7 out 17 items. Some of the results achieved in compliance with the agreement include the following:

- Hiring a board consultant and continued work with the consultant to assist the Board in fulfilling its fiduciary duties and improving board operations and governance.
- Updating its board committee charters and undergoing several training sessions to improve governance of the Association.
- Revising the director candidate nominating procedures to qualify new candidates.
- Hiring a new CEO beginning on February 1, 2011 to lead the Association after the retirement of the previous CEO on June 30, 2010.
- Overseeing the implementation of updated collateral risk management policies and procedures.
- Improving the methodology used to calculate the Allowance for Loan Losses of the Association.
- Hiring a specialized third party auditor that assessed the capital markets portfolio credit risk and helped, strengthened credit policies and procedures.
- Establishing a Compliance Committee to monitor management's progress in implementing the corrective actions of items identified in the SA.
- Ensuring that FCA's recommendations are incorporated in the various action plans.
- Reviewing the Association's internal audit plan to focus on areas where perceived weaknesses were identified.
- Establishing an asset quality improvement plan to monitor management efforts in managing high risk loans.
- Revising the 2011 business plan to establish strategic priorities and to comply with FCA regulations governing business planning.
- Establishing a human capital plan and succession plan to assist in the long-term success of the Association.
- Revising board policies on a quarterly basis to guide management in conducting day to day operations.
- Enhancing the participation's portfolio credit underwriting and administration controls.

All required measures have not been achieved or completed as of the date of this report and the Board of Directors continues to work with the management team in improving the areas identified in the Supervisory Agreement. Besides the ongoing corrective actions already mentioned, other actions to be taken target the following areas.

- Improving board efficacy in overseeing the Association's business practices by updating board policies.
- Updating internal board control policies to promote board governance best practices.
- Improving the calculation for the Allowance for Loan Losses to fully reflect the risk of the credit portfolio.
- Improving risk management work in the area of stress-testing.
- Improving documentation of the audit function's risk assessment.
- Developing strategies for growing the Association's loan portfolio with high quality loans to improve asset quality and, enhance earnings and liquidity.

The Board of Directors will continue engaging a board consultant to provide advice in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement. Both the Board of Directors and Senior Management are committed to continuing the administration of the Association in a sound manner, compliant with all FCA Regulations.

The Association remained under written supervisory agreement as of the date of this report.

Other Regulatory Matters

On August 18, 2011, the FCA published for comment an amendment to the regulations governing investments held by institutions of the System. Comments were due on November 16, 2011. 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 Act, which requires the FCA to remove all references to and requirements relating to credit ratings from its regulations 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.

On August 26, 2011, the FCA published for comment an advance notice of proposed rulemaking regarding various references to and requirements of reliance on crediting ratings issued by NRSROs of a security or money-market instrument. Section 939A of the Dodd-Frank Act requires Federal agencies to remove any reference to or requirement of reliance upon credit ratings, and substitute in their place standards of creditworthiness that they deem appropriate for the regulations. The FCA seeks public comment on alternatives to the use of credit ratings in the regulations. Comments were due on November 25, 2011.

On November 1, 2011, the FCA published for comment the draft Second Amended and Restated Market Access Agreement (MAA), which is an Agreement between the Banks and the Funding Corporation. Comments were due December 1, 2011. No comments were received by the FCA with respect to the draft MAA. The MAA was executed by the Banks and the Funding Corporation with an effective date of January 1, 2012.

On December 27, 2011, the FCA published for comment a proposed rule to amend the liquidity regulation. The purpose of the proposed rule is to strengthen liquidity risk management at System Banks, improve the quality of assets in the liquidity reserve, and bolster the ability of System Banks to fund their obligations and continue their operations during times of economic, financial, or market adversity. Comments were due by February 27, 2012. The stated objectives of the rule are to:

- improve the capacity of Banks to pay their obligations and fund their operations by maintaining adequate liquidity to withstand various market disruptions and adverse financial or economic conditions;
- strengthen liquidity management at all Banks;
- enhance the marketability of assets that Banks hold in their liquidity reserve;
- establish a supplemental liquidity buffer that Banks can draw upon during an emergency and that is sufficient to cover the Bank's liquidity needs beyond the 90-day liquidity reserve; and
- strengthen each Bank's contingency funding plan.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 of the Consolidated Financial Statements, *"Organization and Operations,"* included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, patronage dividend policies or practices, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* included in this Annual Report.

Description of Property

The following table sets forth certain information regarding the property of the reporting entity, which is located in San Juan, Puerto Rico:

Location	Description	Form of Ownership
213 Domenech Ave Hato Rey	Administrative/ San Juan Branch	Owned

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 13 of the Consolidated Financial Statements, *"Commitments and Contingencies,"* included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 9 of the Consolidated Financial Statements, *"Members' Equity,"* included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2 and 13 of the Consolidated Financial Statements included in this Annual Report.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association:

Senior Officer	Position
Ricardo L Fernández	*President & CEO* since February 1, 2011 He spent 15 years working at a commercial bank occupying various positions in Corporate Strategic Planning and Finance. The last five years he was a VP & Manager for Small and Middle-Market Commercial Lending.
Bruce M. Hoffman	*Vice President & COO/CFO* since November 1992 and *Acting President &CEO* since July 1, 2010; retired January 31, 2011.
Victor Arroyo	*Vice President & CCO* since April 2011 He has been with the Association for the past nine years working as Manager for the loan participations and rural housing loan portfolios. He has over 20 years experience working in the financial services industry.
Jorge A. Dulzaides	*Regional Lending Manager* since January 2000
Nydia J. Acevedo	*Controller* since October 16, 2006

The total amount of compensation earned by the CEO and the five most highly paid officers as a group, during the years ended December 31, 2011, 2010 and 2009, is as follows:

Aggregate Number of Senior Officers	Year	Salary	Exec. Compens.	Other Bonus	Total
Ricardo L. Fernández	2011	$ 137,505	$ 45,000	$ 16,000	$ 198,505
Bruce H. Hoffman	2011	$ 12,500	$ –	$ 35,247	$ 47,748
Bruce H. Hoffman	2010	$ 75,000	$ –	$ 5,600	$ 155,606
William A. Garrahan	2010	$ 150,000	$ –	$ 346,269	$ 496,869
William A. Garrahan	2009	$ 300,012	$ –	$ 600	$ 300,612
5	2011	$ 430,961	$ –	$ 5,000	$ 435,961
5	2010	$ 507,735	$ –	$ 8,000	$ 515,735
5	2009	$ 569,612	$ –	$ 3,000	$ 572,612

The Association did not have a plan in place or provisions in any of the three years, which would allow for or facilitate the deferral of compensation, either salary or bonus.

In 2011, Mr. Fernández' compensation includes performance and other bonuses detailed as follows. The Board approved in January 2012 additional executive compensation based on certain performance measures achieved in 2011. The bonus has been accrued but has not been paid as of the date of this report. Included in the other bonus category a signing bonus and the Commonwealth Christmas bonus.

Mr. Hoffman's 2011 compensation included in the other bonus category payment of accrued and accumulated annual leave paid upon his retirement.

During 2010, the Board reached a severance agreement with Mr. Garrahan, which included the payment of one year salary. Also, included in the other bonus category for Garrahan was payment of accrued annual leave and, the Commonwealth Christmas bonus.

For the five other senior officers, other bonus equates to the mandatory payment of a Christmas Bonus required by Commonwealth law in each year. Since 2009, given the Association's net operating losses, no consideration has been given by the Board to the payment of executive variable compensation. For 2011, there was no executive compensation plan adopted by the Board of Directors.

In 2009 and 2010, the Board of Directors adopted plans which contained the same quantifiable categories, and included a fourth discretionary category that was not quantifiably measurable. Each performance area had a defined payout amount assigned with measurable performance targets established.

The following chart describes the weighted significance of each performance category as assigned by the Board of Directors in 2009 and 2010:

	2009	2010
Business loan volume	–%	–%
Quality control	–%	–%
Financial performance	–%	–%
Individual contribution	100%	100%

Within each major performance category there were specific objectives established which were designed to motivate performance that exceeded the most likely goals of the related annual business plan. These objectives include return on assets, credit quality, and delinquency, growth in loan volume, examination results and control of operating expenses.

A 2011 incentive plan was adopted by the Board of Directors for the association employees and department managers. The objectives of the plan were to tie compensation directly to organizational performance, focusing attention on both short-term and long-term results. No payment was made to any employees under the incentive plan in 2011.

Disclosure of information on the total compensation paid during 2011 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Directors

Directors and senior officers are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking, laundry, registration fees, and other expenses associated with the travel on official business.

A copy of the policy is available to the Associations' stockholders upon request.

The aggregate amount of expense or reimbursement for travel, subsistence and other related expenses for all directors as a group was $92,593 for 2011, $68,808 for 2010 and $51,789 for 2009. It is the practice of the Association not to provide noncash compensation to directors. For 2011, there was no noncash compensation provided.

Subject to approval of the Board of Directors, the chairman was compensated at a per diem rate of $400 for all official activities. The other elected, stockholder directors were compensated at a per diem rate of $375. Honorarium for the independent, external directors was at a per diem rate of $1,000 for Marichal and $375 for Oramas. Directors are also paid honorarium at the per diem rate on a full day basis for normal travel to and from conferences and meetings when the distance and schedule requires travel on any portion of the day prior to or following the scheduled activity.

In addition, all directors were paid quarterly a retainer fee as compensation for incidental services and review/preparation for meetings and assignments. The chairman's retainer fee was $875 per quarter and $750 per quarter for all the other directors, including the external directors.

Additional information for each Director is provided below:

Name of Director	No. of Days Served: Regular Board Meetings	No. of Days Served: Other Official Activities	Committee Assignments	Total Honoraria During 2011
Juan A. Santiago	21	22	Governance/Compensation Audit	$ 20,700
Felipe Ozonas	12	11	Governance Compensation - Chairman	11,625
Carlos A. Rodriguez	15	9	Credit Review	12,000
Damián Rivera	15	13	Governance - Chairman	13,500
Pablo Rodríguez	15	8	Credit Review	11,625
Robert G. Miller	16	11	Audit/Governance	13,125
Victor M. Ayala	16	9	Credit Review/Audit	12,375
Antonio Marichal *	18	18	Audit – Chairman Compensation	39,000
Francisco Oramas	17	14	Compensation	14,625
				$ 148,575

* *Audit Committee financial expert as determined by the Board of Directors*

** *In September 2010, the Board of Directors amended the Bylaws to expand the number of external directors from one to two.*

Additionally, during February 2011, the Board of Directors approved special honoraria compensation for directors Mr. Santiago and Mr. Marichal as reimbursement in consideration of the additional time spent in various extraordinary matters delegated to each of them by the Board of Directors. Specifically, Mr. Santiago and Mr. Marichal were compensated $25,600 and $29,490, respectively. These amounts were in addition to those documented in the table above.

All directors shall make themselves available to serve on the loan committee, upon the scheduling of a meeting. Any two directors along with the President/CEO shall constitute a quorum for the loan committee. Committee meetings are normally scheduled and held the same day as monthly board of director's meetings. This scheduling method results in there being no separate and/or additional honorarium paid for the various committee meetings. The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years:

Mr. Juan A. Santiago, 47, Chairman, leases-out a floriculture operation and owns a small beef cattle farm. He is an agronomist and member of the PR Farm Bureau, former President of the PR Agronomist Association, and the Audubon Society. His term of office is 2010 – 2013. He was first elected to the Board in 1992.

Mr. Felipe Ozonas, 50, Vice Chairman, operates a farm in Castañer, Adjuntas producing Arábiga and Robusta coffee, plantains and, production, packing and marketing of citrus. He completed advanced studies in livestock engineering in Spain and is a member of the PR Farm Bureau. His term of office is 2009 – 2012. He was first elected to the Board in 2000.

Mr. Carlos A. Rodríguez, 61, operated and recently sold a dairy farm in Morovis. He has a bachelor's degree in Business Administration from the University of Puerto Rico. His memberships include the PR Farm Bureau and the PR Dairy Herd Improvement Association. His term of office is 2008 – 2011. He was first elected to the Board in 2002.

Mr. Damián Rivera, 58, owns and operates a 502 acre dairy and dairy herd replacement farm. He is an agronomist, and is the President of the PR Agronomist Association and a member of the Mill Agro Group (livestock feed). His term of office is 2009 – 2012. He was first elected to the Board in 1994.

Mr. Pablo Rodriguez, 48, owns and operates a farm in San Sebastian, with more than twenty years experience producing oranges, plantains, bananas and coffee. He is a member of the PR Agronomist Association. His term of office is 2011-2014. He was first appointed to the Board in 2010 and, re-elected in 2011.

Mr. Robert G. Miller, 57, owns and operates a commercial layer operation in Aibonito and Orocovis. The egg production is processed, packed and distributed under the Asomante brand name. He is a member of the "Fondo del Fomento de la Industria del Huevo" and of the PR Farm Bureau. His term of office is 2010- 2013. He was first elected to the Board in 2010.

Mr. Victor M. Ayala, 63, owns and operates a dairy farm in Humacao. He attended University of Puerto, where he majored in Civil Engineering. His memberships include College of Engineers and Surveyors, PR Farm Bureau, Asociación Pecuaria del Este, Federación de Asociaciones Pecuarias de PR, Inc. and, board member of the Fondo de Estabilización de Precios de la Industria Lechera. His term of office is 2011 – 2014. He was first elected to the Board in 2004.

Mr. Antonio E. Marichal, 61, External Director, is a licensed attorney with an accounting background. For the past 25 years he was a partner in a law firm, specializing in business and a broad commercial practice, tax and corporate law; and other business related areas. Currently he is a retired partner and of counsel to the firm. He is very familiar with the business of agriculture, especially the dairy sector. His memberships include PR Bar Association, American Bar Association, Asociación de Notarios de PR, among others. His term of office is 2010 – 2012. He was first appointed to the Board in 2006.

Mr. Francisco Oramas, 46, External Director, is a Vice-President of Hills Brothers, a fruit and vegetable distributor. He was the under Secretary of Agriculture from 2005 to 2007. He is a member of the PR Agronomist Association and has worked with the milk industry. His term of office is 2010-2013. He was first appointed to the Board in 2010.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 12 of the Consolidated Financial Statements, *"Related Party Transactions,"* included in this Annual Report.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2011, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2011.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Certified Public Accountants

There were no changes in or material disagreements with our independent certified public accountant on any matter of the generally accepted accounting principles or financial statement disclosures during this period.

Aggregate fees expensed by the Association for services rendered by its independent certified public accountant for the year ended December 31, 2011 were as follows:

	2011
Independent Certified Public Accountant	
PricewaterhouseCoopers LLP	
Audit services	$ 76,928
Total	$ 76,928

Audit services fees were for the annual audit of the Consolidated Financial Statements.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 13, 2012 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-787-753-5435, or writing Nydia J. Acevedo, Controller, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936 or accessing the web site, ***www.puertoricofarmcredit.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the 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 Association.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank'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 by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Puerto Rico Farm Credit, ACA (Association) and in the opinion of the Board of Directors; each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been reviewed, amended and approved by the Board of Directors in 2011. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

The Board of Directors of the Association entered into a Supervisory Agreement with FCA, which substantially collapsed two supervisory letters from 2009 and 2010 into the agreement, along with, certain additional findings and compliance matters. FCA required compliance in matters mostly related to board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality deterioration, allowance for loan losses and collateral risk management, and capital markets and participation activities. The Association has reached partial compliance with some of the requirements of the Supervisory Agreement and incremental progress in all. Please refer to the following sections of the Annual Report, as all these matters are fully discussed in the section of Regulatory Matters of the Management's Discussion & Analysis of Financial Condition & Results of Operations and Note 17, Regulatory Enforcement Matters, of the Notes to the Consolidated Financial Statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent certified public accountants for 2011, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by the Statement on Auditing Standards No. 114 (*The Auditor's Communication with those charged with Governance*). PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 *(Independence Discussions with Audit Committees)*, and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

The members of the Committee are not professionally engaged in the practice of auditing or accounting. The members of the Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent certified public accountants. Accordingly, the Committee's considerations and discussions referred to above do not assure that the audit of the Association's financial statements has been carried out in accordance with auditing standards generally accepted in the United States of America or that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2011. The foregoing report is provided by the following independent directors, who constitute the Audit Committee:

Antonio E. Marichal, External Director
Chairman of the Audit Committee

Members of Audit Committee

Victor M. Ayala, Director
Carlos A. Rodríguez, Director
Juan A. Santiago, Director

March 13, 2012

Report of Independent Certified Public Accountants

Report of Independent Certified Public Accountants

To the Board of Directors and Members
of Puerto Rico Farm Credit, ACA

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Puerto Rico Farm Credit, ACA (the Association) and its subsidiaries at December 31, 2011, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 13, 2012

PricewaterhouseCoopers LLP, 401 E. Las Olas Boulevard, Suite 1800, Fort Lauderdale, FL 33301
T: (954) 764-7111, F: (954)525-4453, www.pwc.com/us

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2011	2010	2009
Assets			
Cash	$ 164	$ 928	$ 162
Loans	175,382	188,406	227,226
Less: allowance for loan losses	3,482	4,003	2,720
Net loans	171,900	184,403	224,506
Notes receivable from other Farm Credit institutions (Note 5)	10,000	10,000	10,000
Accrued interest receivable	568	579	864
Investments in other Farm Credit institutions	2,706	3,162	3,679
Premises and equipment, net	916	980	1,116
Other property owned	2,489	2,443	521
Due from AgFirst Farm Credit Bank	1,479	1,658	1,845
Other assets	1,610	2,036	2,261
Total assets	$ 191,832	$ 206,189	$ 244,954
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 143,364	$ 156,743	$ 187,237
Accrued interest payable	274	334	375
Patronage refund payable	—	—	615
Other liabilities	2,381	2,763	2,053
Total liabilities	146,019	159,840	190,280
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	648	679	721
Unallocated retained earnings	44,886	45,878	53,208
Accumulated other comprehensive income (loss)	279	(208)	745
Total members' equity	45,813	46,349	54,674
Total liabilities and members' equity	$ 191,832	$ 206,189	$ 244,954

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

Consolidated Statements of Operations

(dollars in thousands)	For the year ended December 31, 2011	2010	2009
Interest Income			
Loans	$ 6,753	$ 7,248	$ 8,802
Notes receivable from other Farm Credit institutions (Note 5)	900	900	900
Total interest income	7,653	8,148	9,702
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	3,512	4,252	5,157
Net interest income	4,141	3,896	4,545
Provision for loan losses	2,329	9,390	3,312
Net interest income after provision for loan losses	1,812	(5,494)	1,233
Noninterest Income			
Loan fees	372	342	352
Patronage rebate fees	230	226	233
Patronage refund from other Farm Credit institutions	1,576	1,768	1,845
Gains (losses) on other property owned, net	(218)	(114)	89
Insurance Fund refunds	—	704	—
Other noninterest income	55	73	45
Total noninterest income	2,015	2,999	2,564
Noninterest Expense			
Salaries and employee benefits	3,151	3,388	3,212
Occupancy and equipment	296	251	266
Insurance Fund premiums	99	100	392
Other operating expenses	1,273	1,108	787
Total noninterest expense	4,819	4,847	4,657
Income (loss) before income taxes	(992)	(7,342)	(860)
Provision for income taxes	—	2	—
Net income (loss)	$ (992)	$ (7,344)	$ (860)

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2008	$ 779	$ 54,577	$ 913	$ 56,269
Comprehensive income (loss)				
Net income (loss)		(860)		(860)
Employee benefit plans adjustments (Note 11)			(168)	(168)
Total comprehensive income (loss)				(1,028)
Capital stock/participation certificates issued/(retired), net	(58)			(58)
Patronage distribution				
Cash		(615)		(615)
Patronage distribution adjustment		106		106
Balance at December 31, 2009	721	53,208	745	54,674
Comprehensive income (loss)				
Net income (loss)		(7,344)		(7,344)
Employee benefit plans adjustments (Note 11)			(953)	(953)
Total comprehensive income (loss)				(8,297)
Capital stock/participation certificates issued/(retired), net	(42)			(42)
Patronage distribution adjustment		14		14
Balance at December 31, 2010	679	45,878	(208)	46,349
Comprehensive income (loss)				
Net income (loss)		(992)		(992)
Employee benefit plans adjustments (Note 11)			487	487
Total comprehensive income (loss)				(505)
Capital stock/participation certificates issued/(retired), net	(31)			(31)
Balance at December 31, 2011	$ 648	$ 44,886	$ 279	$ 45,813

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2011	2010	2009
Cash flows from operating activities:			
Net income (loss)	$ (992)	$ (7,344)	$ (860)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	156	150	165
Amortization (accretion) of net deferred loan origination costs (fees)	72	87	96
Amortization of premiums on purchased loans	116	191	260
Provision for loan losses	2,329	9,390	3,312
(Gains) losses on other property owned, net	218	114	(89)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	11	285	380
(Increase) decrease in due from AgFirst Farm Credit Bank	179	187	(240)
(Increase) decrease in other assets	426	225	25
Increase (decrease) in accrued interest payable	(60)	(41)	(176)
Increase (decrease) in other liabilities	105	(243)	(37)
Total adjustments	3,552	10,345	3,696
Net cash provided by (used in) operating activities	2,560	3,001	2,836
Cash flows from investing activities:			
Net (increase) decrease in loans	8,522	28,237	30,947
(Increase) decrease in investment in other Farm Credit institutions	456	517	(162)
Purchases of premises and equipment	(92)	(14)	(40)
Proceeds from sales of other property owned	1,200	162	98
Net cash provided by (used in) investing activities	10,086	28,902	30,843
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(13,379)	(30,494)	(31,855)
Capital stock and participation certificates issued/(retired), net	(31)	(42)	(58)
Patronage refunds paid	—	(601)	(1,894)
Net cash provided by (used in) financing activities	(13,410)	(31,137)	(33,807)
Net increase (decrease) in cash	(764)	766	(128)
Cash, beginning of period	928	162	290
Cash, end of period	$ 164	$ 928	$ 162
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	$ 1,464	$ 2,198	$ 530
Estimated cash dividends or patronage distributions declared or payable	—	—	615
Employee benefit plans adjustments (Note 11)	(487)	953	168
Supplemental information:			
Interest paid	$ 3,572	$ 4,293	$ 5,333
Taxes (refunded) paid, net	—	2	—

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Puerto Rico Farm Credit, ACA (Association) is a stockholder-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified purposes within the Commonwealth of Puerto Rico. The Association is also authorized by its charter from the Farm Credit Administration to provide the same credit and credit-related services for qualified purposes within the territory of the U.S. Virgin Islands.

The Association is a lending institution of the Farm Credit System (the System) a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2011, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and eighty-four associations.

AgFirst Farm Credit Bank (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to associations within the District and is responsible for supervising certain activities of the Association, as well as the other associations operating within the District. At December 31, 2011, the District consisted of the Bank and twenty Agricultural Credit Associations (ACAs), all of which are structured as ACA parent-companies, which have two wholly owned subsidiaries, a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA). FLCAs are tax-exempt while ACAs and PCAs are taxable.

Puerto Rico Farm Credit, ACA holds a charter for each of the two wholly-owned subsidiaries. The Association makes short- and intermediate-term loans for agricultural production or operating purposes, and collateralized long-term real estate mortgage loans, with funding from the Bank. The ACA further participates in certain participation loans acquired on a non-patronage basis to the FLCA.

The Farm Credit Administration is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation or FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

Certain amounts in prior years' financial statements may have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on net income or total members' equity of prior years. The Consolidated Financial Statements include the accounts of Puerto Rico Farm Credit, FLCA. All significant inter-company transactions have been eliminated in consolidation.

A. **Cash:** Cash as included in the statements of cash flows, represents cash on hand and on deposit at the Association's depository bank.

B. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans for agricultural purposes may have maturities extending up to 20 years. Long-term real estate loans made for the purpose of rural housing may have original maturities ranging from five to 40 years. Substantially all short and intermediate term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans originated within the Association's chartered territory, Puerto Rico, are generally carried at the principal amount outstanding, net of the unamortized origination cost. The related loan origination fees and direct loan origination costs are netted and deferred and the net fee or cost is amortized over the life of the related loan as an adjustment to yield. Certain participation loans are purchased at a premium. These loans are carried at the principal amount outstanding, plus the unamortized premium. Premium is amortized on a monthly basis as an adjustment to interest income. Most of the participation loans purchased at a premium are acquired in the USDA secondary market with both the principal and the interest unconditionally guaranteed by the United States government. Interest on loans, both originated and purchased participations, is accrued and credited to interest income based upon the daily principal amount outstanding.

The Association uses a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including current production and economic conditions, loan portfolio composition, collateral value, portfolio quality, and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The Association considers the following factors when adjusting the historical charge-offs experience:

- Changes in credit risk classifications,
- Changes in collateral values,
- Changes in risk concentrations,
- Changes in weather related conditions, and
- Changes in economic conditions.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans, and could include loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is a valuation account used to reasonably estimate loan losses existing as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance for loan losses reversals and loan charge-offs.

C. **Investment in Other Farm Credit Institutions:** Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class C stock. Accounting for this investment is on the cost plus allocated equities basis.

D. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Revised estimates of the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses and carrying value adjustments related to other property owned are included in gains (losses) on other property owned, net.

E. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

F. **Advanced Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted; the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured.

G. **Employee Benefit Plans:** All employees of the Association may participate in either the AgFirst Farm Credit Final Average Pay Retirement Plan or the AgFirst Farm Credit Cash Balance Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer plans. These two Plans are noncontributory and include eligible District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of these Plans are allocated to each participating entity, including the Association, by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for both Plans' participants.

All employees of the Association may also be eligible to participate in a defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. The 401(k) plan also qualifies in Puerto Rico with the Department of the Treasury (Hacienda) as an 1165(e) plan. For employees hired on or prior to December 31, 2002, the Association contributes $.50 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. Employee contributions are not to exceed the maximum contribution as established by Hacienda. On a monthly basis, plan administrative costs are accrued and/or expensed when incurred, depending upon the individual vendor providing services.

The Association provides certain health care and life insurance benefits to eligible retired employees. Substantially all employees may become eligible for these benefits if they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits. Refer to Note 11 for the impact of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans and for more detail on costs directly related to employee benefit plans.

H. **Income Taxes:** The Association operates as a cooperative that qualifies for federal tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the ACA can exclude from taxable income amounts distributed as qualified patronage refunds. Provisions for federal income tax will be calculated and recorded only on those earnings not distributed. The Association distributes 100 percent of patronage sourced earnings on the basis of federal taxable income.

As previously described, the ACA operates with one wholly-owned subsidiary. The FLCA is exempt from federal and other income taxes as provided in the Farm Credit Act. The ACA is subject to federal income tax. The Association accounts for income taxes under the asset and liability method.

The Association has adopted a "pro-rata" method to tax effect only the portion of the Association's temporary differences expected to have a future tax consequence to the Association. The Association intends to have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends. This operating scenario results in zero federal taxable income. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences.

For Puerto Rico tax purposes, the Association has had a ruling from the Puerto Rico Treasury Department since June 1993 determining that the Association and its subsidiaries will be treated as a domestic cooperative association. Thus, the Association enjoys the exemptions provided by Article 23 of the General Cooperative Association Act of Puerto Rico of 2004, Act No. 239 of September 1, 2004.

I. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank on an accrual basis.

J. **Fair Value Measurement:** FASB guidance defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The 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 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It describes three levels of inputs that may be used to measure fair value as discussed in Note 14.

K. **Recently Issued Accounting Pronouncements:** In December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, "Balance Sheet (Topic 220) - Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will result in additional disclosures.

In September 2011, the FASB issued ASU 2011-09, "Compensation (Topic 715): 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 the following: (1) a description of the nature of plan benefits; (2) 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 (3) 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. The adoption did not impact the Association's financial condition or results of operation but did result in additional disclosures (see Note 11).

In June 2011, the 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 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. 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 will not impact the Association's financial condition or results of operations, but will result 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 are 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 will not impact the Association's financial condition or results of operations, but will result in 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, including the District, 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 (see Note 3).

In July 2010, the FASB issued ASU 2010-20, "Receivables (Topic 310): 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 ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820)" 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 14).

Note 3 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31, 2011	2010	2009
Real estate mortgage	$ 113,241	$ 113,847	$ 128,614
Production and intermediate-term	32,628	30,692	41,361
Agribusiness			
Loans to cooperatives	–	–	42
Processing and marketing	6,559	15,228	26,221
Farm-related business	732	1,326	2,227
Total agribusiness	7,291	16,554	28,490
Communication	1,261	5,175	4,987
Energy	2,480	2,711	2,875
Rural residential real estate	18,481	19,427	20,899
Total Loans	$ 175,382	$ 188,406	$ 227,226

A substantial portion of the Association's chartered territory lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

The FCA has in place regulations which limit the total amount of principal and commitment a direct lender association may make available to an individual loan relationship. The regulatory limit is 25 percent of permanent capital. In response to these regulations, the Association has adopted an administratively set limit significantly lower than the regulatory maximum limit.

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 the principal balance of participations purchased and sold at December 31, 2011 and 2010:

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	$ 2,044	$ 10,403	$ –	$ –	$ 1,260	$ –	$ 3,304	$ 10,403
Production and intermediate-term	22,874	–	–	–	939	–	23,813	–
Agribusiness								
Processing and marketing	6,371	–	–	–	791	–	7,162	–
Farm-related business	–	–	–	–	702	–	702	–
Total agribusiness	6,371	–	–	–	1,493	–	7,864	–
Communication	1,267	–	–	–	–	–	1,267	–
Energy	2,485	–	–	–	–	–	2,485	–
Total	$ 35,041	$ 10,403	$ –	$ –	$ 3,692	$ –	$ 38,733	$ 10,403

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	$ 2,036	$ 10,464	$ 1,230	$ –	$ 2,043	$ –	$ 5,309	$ 10,464
Production and intermediate-term	16,323	–	2,320	–	1,459	–	20,102	–
Agribusiness								
Processing and marketing	14,376	–	–	–	902	–	15,278	–
Farm-related business	170	–	–	–	1,128	–	1,298	–
Total agribusiness	14,546	–	–	–	2,030	–	16,576	–
Communication	5,188	–	–	–	–	–	5,188	–
Energy	2,719	–	–	–	–	–	2,719	–
Total	$ 40,812	$ 10,464	$ 3,550	$ –	$ 5,532	$ –	$ 49,894	$ 10,464

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 December 31, 2011 and indicates that approximately 35.98 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	$ 29,479	$ 47,771	$ 35,991	$ 113,241
Production and intermediate-term	25,800	4,839	1,989	32,628
Agribusiness				
Processing and marketing	3,852	1,187	1,520	6,559
Farm-related business	–	30	702	732
Total agribusiness	3,852	1,217	2,222	7,291
Communication	1,193	68	–	1,261
Energy	2,485	(5)	–	2,480
Rural residential real estate	294	298	17,889	18,481
Total Loans	$ 63,103	$ 54,188	$ 58,091	$ 175,382

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 December 31, 2011, 2010, and 2009:

	2011	2010	2009
Real estate mortgage:			
Acceptable	82.64%	83.56%	85.85%
OAEM	2.69	3.39	4.29
Substandard/doubtful/loss	14.67	13.05	9.86
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	69.54%	66.47%	64.61%
OAEM	13.07	19.10	11.41
Substandard/doubtful/loss	17.39	14.43	23.98
	100.00%	100.00%	100.00%
Agribusiness:			
Loans to cooperatives:			
Acceptable	–%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	–%	100.00%	100.00%
Processing and marketing:			
Acceptable	57.24%	53.87%	70.58%
OAEM	18.94	24.14	12.78
Substandard/doubtful/loss	23.82	21.99	16.64
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	100.00%	96.82%
OAEM	–	–	3.18
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	2011	2010	2009
Total agribusiness:			
Acceptable	61.52%	57.56%	72.68%
OAEM	17.05	22.21	12.01
Substandard/doubtful/loss	21.43	20.23	15.31
	100.00%	100.00%	100.00%
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Energy:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	91.11%	91.29%	90.73%
OAEM	3.67	1.64	3.54
Substandard/doubtful/loss	5.22	7.07	5.73
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	80.59%	79.97%	81.32%
OAEM	5.26	7.28	6.54
Substandard/doubtful/loss	14.15	12.75	12.14
	100.00%	100.00%	100.00%

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

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	$ 2,787	$ 11,099	$ 13,886	$ 99,675	$ 113,561	$ –
Production and intermediate-term	1,203	3,722	4,925	27,785	32,710	–
Agribusiness						
Processing and marketing	–	(2)	(2)	6,596	6,594	–
Farm-related business	–	–	–	734	734	–
Total agribusiness	–	(2)	(2)	7,330	7,328	–
Communication	–	–	–	1,261	1,261	–
Energy	–	–	–	2,481	2,481	–
Rural residential real estate	1,092	263	1,355	17,179	18,534	–
Total	$ 5,082	$ 15,082	$ 20,164	$ 155,711	$ 175,875	$ –

	December 31, 2010					
	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	$ 1,455	$ 5,673	$ 7,128	$ 107,036	$ 114,164	$ 3
Production and intermediate-term	–	2,388	2,388	28,384	30,772	–
Agribusiness						
Processing and marketing	–	251	251	15,025	15,276	–
Farm-related business	–	–	–	1,329	1,329	–
Total agribusiness	–	251	251	16,354	16,605	–
Communication	–	–	–	5,177	5,177	–
Energy	–	–	–	2,711	2,711	–
Rural residential real estate	603	195	798	18,683	19,481	31
Total	$ 2,058	$ 8,507	$ 10,565	$ 178,345	$ 188,910	$ 34

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 are as follows:

	December 31,		
(dollars in thousands)	2011	2010	2009
Nonaccrual loans:			
Real estate mortgage	$ 11,239	$ 7,179	$ 5,053
Production and intermediate-term	4,964	3,706	9,978
Agribusiness			
Processing and marketing	(2)	2,736	3,674
Rural residential real estate	734	302	402
Total nonaccrual loans	$ 16,935	$ 13,923	$ 19,107
Accruing restructured loans:			
Real estate mortgage	$ 4,021	$ –	$ –
Total accruing restructured loans	$ 4,021	$ –	$ –
Accruing loans 90 days or more past due:			
Real estate mortgage	$ –	$ 3	$ –
Rural residential real estate	–	31	–
Total accruing loans 90 days or more past due	$ –	$ 34	$ –
Total nonperforming loans	$ 20,956	$ 13,957	$ 19,107
Other property owned	2,489	2,443	521
Total nonperforming assets	$ 23,445	$ 16,400	$ 19,628
Nonaccrual loans as a percentage of total loans	9.66%	7.39%	8.41%
Nonperforming assets as a percentage of total loans and other property owned	13.18%	8.59%	8.62%
Nonperforming assets as a percentage of total members' equity	51.18%	35.38%	35.90%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

	December 31,		
(dollars in thousands)	2011	2010	2009
Impaired nonaccrual loans:			
Current as to principal and interest	$ 1,379	$ 5,561	$ 6,534
Past due	15,556	8,362	12,573
Total impaired nonaccrual loans	16,935	13,923	19,107
Impaired accrual loans:			
Restructured	4,021	–	–
90 days or more past due	–	34	–
Total impaired accrual loans	4,021	34	–
Total impaired loans	$ 20,956	$ 13,957	$ 19,107

Additional impaired loan information is as follows:

	December 31, 2011			Year Ended December 31, 2011	
(dollars in thousands)	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	$ 2,851	$ 2,913	$ 677	$ 2,138	$ 42
Production and intermediate term	3,748	9,525	461	2,811	56
Agribusiness					
Processing and marketing	–	–	–	–	–
Rural residential real estate	277	284	56	208	4
Total	$ 6,876	$ 12,722	$ 1,194	$ 5,157	$ 102
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 12,409	$ 14,882	$ –	$ 9,305	$ 185
Production and intermediate-term	1,216	1,324	–	912	18
Agribusiness					
Processing and marketing	(2)	655	–	(1)	–
Rural residential real estate	457	509	–	342	7
Total	$ 14,080	$ 17,370	$ –	$ 10,558	$ 210
Total impaired loans:					
Real estate mortgage	$ 15,260	$ 17,795	$ 677	$ 11,443	$ 227
Production and intermediate-term	4,964	10,849	461	3,723	74
Agribusiness					
Processing and marketing	(2)	655	–	(1)	–
Rural residential real estate	734	793	56	550	11
Total	$ 20,956	$ 30,092	$ 1,194	$ 15,715	$ 312

	December 31, 2010			Year Ended December 31, 2010	
(dollars in thousands)	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	$ 3,361	$ 3,489	$ 540	$ 5,153	$ 87
Agribusiness					
Processing and marketing	2,407	2,604	771	3,690	62
Rural residential real estate	–	–	–	–	–
Total	$ 5,768	$ 6,093	$ 1,311	$ 8,843	$ 149
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,821	$ 6,894	$ –	$ 5,857	$ 99
Production and intermediate-term	3,706	8,900	–	5,681	96
Agribusiness					
Processing and marketing	329	3,604	–	505	9
Rural residential real estate	333	427	–	510	9
Total	$ 8,189	$ 19,825	$ –	$ 12,553	$ 213
Total impaired loans:					
Real estate mortgage	$ 7,182	$ 10,383	$ 540	$ 11,010	$ 186
Production and intermediate-term	3,706	8,900	–	5,681	96
Agribusiness					
Processing and marketing	2,736	6,208	771	4,195	71
Rural residential real estate	333	427	–	510	9
Total	$ 13,957	$ 25,918	$ 1,311	$ 21,396	$ 362

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 December 31, 2011.

The following table summarizes interest income on nonaccrual loans that would have been recognized under the original terms of the loans:

	Year Ended December 31,		
	2011	2010	2009
Interest income which would have been recognized under the original loan terms	$ 1,482	$ 1,309	$ 836
Interest income compromised during collection	–	6	58
Less: interest income recognized	(307)	(356)	(468)
Foregone interest income	$ 1,175	$ 959	$ 426

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

December 31, 2011	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at December 31, 2010	$ 1,107	$ 153	$ 2,580	$ 17	$ 6	$ 140	$ 4,003
Charge-offs	(422)	(701)	(1,742)	–	–	–	(2,865)
Recoveries	1	–	14	–	–	–	15
Provision for loan losses	673	1,205	421	(10)	(4)	44	2,329
Balance at December 31, 2011	$ 1,359	$ 657	$ 1,273	$ 7	$ 2	$ 184	$ 3,482
December 31, 2011 allowance ending balance:							
Loans individually evaluated for impairment	$ 677	$ 461	$ –	$ –	$ –	$ 56	$ 1,194
Loans collectively evaluated for impairment	$ 682	$ 196	$ 1,273	$ 7	$ 2	$ 128	$ 2,288
Recorded investment in loans outstanding:							
Ending Balance at December 31, 2011	$ 113,561	$ 32,710	$ 7,328	$ 1,261	$ 2,481	$ 18,534	$ 175,875
December 31, 2011 recorded investment ending balance:							
Loans individually evaluated for impairment	$ 10,464	$ 4,991	$ –	$ –	$ –	$ 277	$ 15,732
Loans collectively evaluated for impairment	$ 103,097	$ 27,719	$ 7,328	$ 1,261	$ 2,481	$ 18,257	$ 160,143

December 31, 2010	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at December 31, 2009	$ 283	$ 44	$ 2,330	$ 19	$ 7	$ 37	$ 2,720
Charge-offs	(2,283)	(5,350)	(488)	–	–	–	(8,121)
Recoveries	14	–	–	–	–	–	14
Provision for loan losses	3,093	5,459	738	(2)	(1)	103	9,390
Balance at December 31, 2010	$ 1,107	$ 153	$ 2,580	$ 17	$ 6	$ 140	$ 4,003
December 31, 2010 allowance ending balance:							
Loans individually evaluated for impairment	$ 540	$ –	$ 771	$ –	$ –	$ –	$ 1,311
Loans collectively evaluated for impairment	$ 567	$ 153	$ 1,809	$ 17	$ 6	$ 140	$ 2,692
Recorded investment in loans outstanding:							
Ending Balance at December 31, 2010	$ 114,164	$ 30,772	$ 16,605	$ 5,177	$ 2,711	$ 19,481	$ 188,910
December 31, 2010 recorded investment ending balance:							
Loans individually evaluated for impairment	$ 6,596	$ 4,947	$ 1,318	$ –	$ –	$ 31	$ 12,892
Loans collectively evaluated for impairment	$ 107,568	$ 25,825	$ 15,287	$ 5,177	$ 2,711	$ 19,450	$ 176,018

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 table presents additional information regarding troubled debt restructurings as of the restructuring date that occurred during the year ended December 31, 2011. The table does not include purchased credit impaired loans.

	Pre-modification Outstanding Recorded Investment			
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 2,425	$ –	$ 2,425
Production and intermediate-term	–	7,894	–	7,894
Total	$ –	$ 10,319	$ –	$ 10,319

	Post-modification Outstanding Recorded Investment				Effects of Modification	
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 2,394	$ –	$ 2,394	$ 214	$ (196)
Production and intermediate-term	–	7,418	–	7,418	546	(499)
Total	$ –	$ 9,812	$ –	$ 9,812	$ 760	$ (695)

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

The following table presents information regarding troubled debt restructurings that occurred during the year ended December 31, 2011 and for which there was a subsequent payment default during this same period. Payment default is defined as a payment that was thirty days or more past due.

(dollars in thousands)	Outstanding Recorded Investment at December 31, 2011
Defaulted troubled debt restructurings:	
Real estate mortgage	$ 321
Production and intermediate-term	327
Total	$ 648

TDRs outstanding at December 31, 2011 totaled $13,161, of which $9,140 were in nonaccrual status.

Note 4 — Investment in Other Farm Credit Institutions

Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class C stock. Accounting for this investment is on the cost plus allocated equities basis.

At December 31, 2011, the Association's investment in the Bank was composed of purchased Class C stock and totaled $2,706. At December 31, 2010 and 2009, the Association's investment in the Bank was also composed of purchased Class C stock and totaled $3,162 and $3,679, respectively. In 2011 and 2010, the Association received refunds of excess stock totaling $456 and $517, respectively. In 2009, the Association purchased additional stock which totaled $162 as part of the Bank's annual capital equalization program.

Note 5 — Notes Receivable from Other Farm Credit Institutions

In September 2008, the Association used capital reserves to purchase $10,000 total of fixed rate unsecured subordinated notes issued by two other associations in the District, both notes due in 2018. The notes receivable are subordinate to all other categories of creditors of the issuing associations, including any claims of the Bank and general creditors, but are senior to all classes of shareholders of the issuing associations. The notes receivable are not considered System debt, and thus are not guaranteed by the System and not insured by the Insurance Corporation. Since the notes receivable are only guaranteed by the issuing associations, repayment could be negatively impacted by funding, credit, and/or counterparty risks encountered by the two issuing associations in their business operations. As of the end of 2011, one of the two associations' credit portfolio was considered by management to maintain higher risk than average when the debt was purchased. If this note receivable were an eligible loan, it would be a criticized loan impacting the Association's liquidity and ability to fund loan growth. As of the release date of this report, the above-referenced association has requested permission from the regulator and district bank to merge with another association from the district, which, would improve the associations' risk profile to acceptable. The second association's loan portfolio maintains an acceptable credit risk profile as of the end of 2011. Management may consider in the near future that it carries higher risk than average. Management still expects to collect all interest and principal as contracted from both associations. It will also continue to inform the Board of Directors on the financial performance of the Associations on a quarterly basis.

The notes receivable bear interest at an annual fixed rate of 9.00 percent, payable on the fifteenth day of each month, beginning on October 15, 2008. Interest will be deferred if, as of the fifth business day prior to an interest payment date, any applicable minimum regulatory capital ratios are not satisfied by the issuing association(s). A deferral period may not last for more than five consecutive years or beyond the maturity date of the note(s). During such a period, the issuing association(s) may not declare or pay any dividends or patronage refunds, among other certain restrictions, until interest payments are resumed and all deferred interest has been paid. The note(s) may be redeemed, at the issuing Association's option, on October 15, 2013, or upon the occurrence of certain defined regulatory events, at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided the issuing association(s) have made payment in full of all amounts then due in respect of their senior indebtedness.

Note 6 — Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2011	2010	2009
Land and improvements	$ 106	$ 106	$ 106
Buildings and improvements	1,430	1,427	1,427
Furniture and equipment	1,098	1,086	1,214
	2,634	2,619	2,747
Less: accumulated depreciation	1,718	1,639	1,631
Total	$ 916	$ 980	$ 1,116

Note 7 — Other Property Owned

Net gains (losses) on other property owned consist of the following:

	December 31, 2011	2010	2009
Gains (losses) on sale, net	$ 55	$ –	$ –
Carrying value unrealized gains (losses)	(260)	(112)	89
Operating income (expense), net	(13)	(2)	–
Gains (losses) on other property owned, net	$ (218)	$ (114)	$ 89

Note 8 — Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings, and capital covenants. The Association failed to meet its financial covenant under the GFA at December 31, 2011. The default allows the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. During the first quarter of 2012, the Bank approved a temporary waiver of the December 31, 2011 default. The Bank has allowed the Association to continue to operate under a special credit agreement (SCAs) pursuant to its GFA.

Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association. The weighted average interest rates on the variable rate notes were 1.59 percent for LIBOR-based loans, 1.69 percent for Prime-based loans, and the weighted average remaining maturities were 1.5 years and 7.1 years, respectively, at December 31, 2011. The weighted average interest rate on the fixed rate notes payable which are match funded by the Bank was 2.93 percent and the weighted average remaining maturity was 4.5 years at December 31, 2011. The weighted average interest rate on all interest-bearing notes payable was 2.00 percent and the weighted average remaining maturity was 5.9 years at December 31, 2011.

Variable rate and fixed rate notes payable represent approximately 76.37 percent and 23.63 percent, respectively, of total notes payable at December 31, 2011.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors and formulas relating primarily to credit quality and financial condition.

Note 9 — Members' Equity

A description of the Association's capitalization requirements, regulatory capitalization requirements and restrictions, and equities are provided below.

A. **Capital Stock and Participation Certificates**

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or Class C participation certificates in the case of rural home and farm related business loans, as a condition of borrowing.

The initial borrower investment, through either purchase or transfer, must be in an amount equal to 2.0 percent or $1, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs.

Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation. At December 31, 2011, the Association had no loans designated for sale, nor were any loans previously sold into the Secondary Market.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers.

Retirement of such equities is at par ($5 per share). Repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates. Retirements of equity investments are subject to approval by the Board, at its sole discretion. Subject to any limitations of the Farm Credit Act, when the debt of a borrower/stockholder is in default, the Association may order retirement of stock or participation certificates owned by the borrower and apply the proceeds to the indebtedness.

B. Regulatory Capitalization Requirements and Restrictions

FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00 percent of risk adjusted assets and off-balance-sheet commitments. Failure to meet the 7.00 percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring equity or making certain other distributions to shareholders unless prescribed capital standards are met. FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk adjusted assets of 7.00 percent and core surplus as a percentage of risk adjusted assets of 3.50 percent. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2011 were 18.61 percent, 18.22 percent and 18.22 percent, respectively.

A FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

C. **Description of Equities**

The Association is authorized to issue or have outstanding Class D Preferred Stock, Classes A and C Common Stock, Class C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All classes of stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The Association had the following shares outstanding at December 31, 2011:

		Shares Outstanding	
Class	**Protected**	**Number**	**Aggregate Par Value**
C Common/Voting	No	81,899	$ 410
C Participation Certificates/Nonvoting	No	47,693	238
Total Capital Stock and Participation Certificates		129,592	$ 648

Common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amount, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account. The minimum amount is determined annually by the Board. At the end of any fiscal year, if the retained earnings account would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board.

Equity Dividends

Equity dividends may be declared and paid on stock and participation certificates as determined by the Board's resolution. The rate of dividend paid on Class D Preferred Stock for any fiscal year may not be less than the rate of dividend paid on common stock or participation certificates for such year. All equity dividends shall be paid on a per share basis. Dividends on common stock and participation certificates shall be noncumulative without preference between classes.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No equity dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Patronage Dividends

The Board, by adoption of a resolution, may obligate the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net earnings for the fiscal year. For 2011, 2010 and 2009, by adoption of resolutions in December 2009, 2008 and 2007, the Board obligated the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net taxable earnings. For all three years, the patronage distributions were authorized to be paid 100 percent in cash, based on the proportion of each eligible borrower's net interest margin as compared to the total net interest margin earned by all eligible borrowers. The Board of Directors reserves the right to change the basis for the payment of patronage dividends in future years.

If the Association meets its capital adequacy standards after accruing the patronage distribution, the dividend distribution may be paid in cash, authorized stock of the Association, allocations of earnings retained in an allocated member's equity account, or any one or more of such forms of distribution. The Board determined that 100 percent of the 2010 and the 2009 patronage dividend would be paid in cash by check. There was no patronage dividend accrued in 2011, as the Association had no taxable income to distribute.

Transfer

Each owner or joint owners of Class C Common Stock is entitled to a single vote, regardless of the number of shares owned, while Class A Common Stock, Class D Preferred Stock and Class C Participation Certificates provide no voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock. Common stock and participation certificates may be transferred to any person eligible to hold such class of equity under the bylaws. Class D Preferred Stock may be transferred in the manner set forth in the resolution authorizing its issuance.

Impairment

Under the capitalization bylaw of the Association, all stock and participation certificates are considered to be issued "at risk" and are not protected under the Farm Credit Act. Any net losses recorded by the Association shall first be applied against unallocated retained earnings. To the extent that such losses would exceed unallocated retained earnings, resulting in impairment of the Association's capital stock, such losses would be applied pro rata to each share and/or unit outstanding in the class, in the following order:

1. Classes A and C Common Stock and Class C Participation Certificates
2. Class D Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities would be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Class D Preferred Stock
2. Classes A and C Common Stock and Participation Certificates

D. **Accumulated Other Comprehensive Income (Loss)**

The Association reports accumulated other comprehensive income (loss) in its Consolidated Statement of Changes in Members' Equity. At December 31, 2011, 2010 and 2009 the balances recognized were $487, $(953) and $(168), respectively. The balances at year end were due to FASB guidance on employers' accounting for other postretirement plans. Refer to Note 11 for additional information.

Note 10 — Income Taxes

At December 31, 2011, the Association recorded no provision or benefit for federal income taxes. For 2010, the Association recognized $2 provision for federal income tax, as not all eligible 2009 patronage sourced income was distributed. As of December 31, 2009 no provision or benefit for federal income taxes was recorded.

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31, 2011	2010	2009
Federal tax at statutory rate	$ (337)	$ (2,496)	$ (292)
Patronage distributions	–	–	(209)
Tax-exempt FLCA earnings (losses)	326	118	498
Other	11	2,380	3
Provision (benefit) for income taxes	$ –	$ 2	$ –

As discussed in Note 2(H) Income Taxes, the Board and management intend that the ACA will have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends, resulting in zero federal income tax. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences and has no net deferred tax assets.

There were no potential uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2011 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and Puerto Rico income tax jurisdictions are 2008 and forward.

Note 11 — Employee Benefit Plans

The Association participates in three District sponsored benefit plans. These plans include two multiemployer defined benefit pension plans, the AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP) and the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB). In addition, the Association participates in a defined contribution 401(k) plan. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

a) Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c) If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The Association's participation in the multiemployer defined benefit plans for the annual period ended December 31, 2011, 2010 and 2009 is outlined in the table below. The "Percentage Funded to Projected Benefit Obligation" represents the funded amount for the entire plan and the "Contributions" and "Percentage of Total Contributions" columns represent the Association's respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
AgFirst Farm Credit Retirement Plan	74.82%	75.75%	71.65%	$668	$804	$954	1.68%	1.95%	2.03%
AgFirst Farm Credit Cash Balance Retirement Plan	81.77%	115.95%	145.01%	$4	$3	$4	0.50%	0.66%	0.48%

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number

2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the Association are eligible to participate in either the FAP Plan or the CB Plan. These two Plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution into the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants Plan expenses included in employee benefit costs were $1,172 for 2011, $1,079 for 2010, and $1,036 for 2009. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

The Association also participates in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by Hacienda. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $44, $49, and $55 for the years ended December 31, 2011, 2010, and 2009, respectively.

FASB guidance requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2011, 2010, and 2009, $487, $(953) and $(168) has been recognized as a net credit and net debits, respectively, to AOCI to reflect these elements.

Additional financial information for the three District sponsored multi-employer plans may be found in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2011 Annual Report.

The Association also provides certain medical and dental benefits for eligible retired employees through a single employer defined benefit other postretirement benefits plan (OPEB), the Puerto Rico Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $237 for 2011, $90 for 2010, and $61 for 2009.

The funding status and the amounts recognized in the Consolidated Balance Sheets of the Association for other postretirement benefit plans follows:

	Other Postretirement Benefits		
	2011	2010	2009
Change in benefit obligation			
Benefit obligation at beginning of year	$ 2,219	$ 1,280	$ 1,131
Service cost	32	19	19
Interest cost	121	74	69
Plan participants' contributions	25	21	19
Plan amendments	–	–	–
Actuarial loss (gain)	(403)	950	142
Benefits paid	(133)	(125)	(100)
Benefit obligation at end of year	$ 1,861	$ 2,219	$ 1,280
Change in plan assets			
Fair value of plan assets, beginning of year	$ –	$ –	$ –
Employer contributions	108	104	81
Plan participants' contributions	25	21	19
Benefits paid	(133)	(125)	(100)
Fair value of plan assets, end of year	$ –	$ –	$ –
Funded Status	$ (1,861)	$ (2,219)	$ (1,280)
Amounts recognized in the balance sheet consist of:			
Other postretirement benefit assets	$ –	–	–
Other postretirement benefit liabilities (included in other liabilities)	(1,861)	(2,219)	(1,280)
Net amount recognized	$ (1,861)	(2,219)	(1,280)

The following represent the amounts included in accumulated other comprehensive income (pre-tax) at December 31:

	Other Postretirement Benefits		
	2011	2010	2009
Net actuarial loss (gain)	$ (428)	$ (25)	$ (1,061)
Prior service costs (credit)	92	142	192
Net transition obligation (asset)	57	91	124
Total amount recognized in AOCI	$ (279)	$ 208	$ (745)

Components of net periodic benefit cost and other amounts for all other postretirement benefits plans recognized in the Association's other comprehensive income as of December 31 are as follows:

	Other Postretirement Benefits		
	2011	2010	2009
Service cost	$ 32	$ 19	$ 19
Interest cost	121	73	69
Amortization of prior service cost	50	50	50
Amortization of transition obligation (asset)	34	34	33
Amortization of net (gain)loss	–	(86)	(110)
Net periodic benefit cost	$ 237	$ 90	$ 61
Other changes in plan assets and projected benefit obligation recognized in OCI			
Net actuarial loss (gain)	$ (403)	$ 951	$ 142
Amortization of prior service cost	(50)	(50)	(34)
Amortization of transition obligation (asset)	(34)	(34)	(50)
Amortization of net actuarial loss (gain)	–	86	110
Total recognized in OCI	(487)	953	168
Total recognized in expense and OCI	$ (250)	$ 1,043	$ 229

Accreted into net income during 2012 will be $65 of actuarial income related to other postretirement benefits; specifically, $33 of net transition obligation (asset), $50 of prior service costs and $18 of net actuarial gain.

Weighted average assumptions used to determine benefit obligations at December 31, 2011, 2010, and 2009 are as follows:

	Other Postretirement Benefits		
	2011	2010	2009
Discount rate	5.05%	5.60%	6.00%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Other Postretirement Benefits		
	2011	2010	2009
Discount rate	5.60%	6.00%	6.25%

For measurement purposes, annual rates of increase of 5.0 percent through 8.00 percent in the per capita cost of covered health benefits were assumed for 2011. The rates were assumed to step down to 5.00 percent in 2023 and remain at that level thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage point change in the assumed healthcare cost trend rates would have the following effects:

	1% Point Increase	1% Point Decrease
Effect on total service cost and interest cost components	$ –	$ (21,409)
Effect on year-end post-retirement benefit obligation	$ 279,594	$ (227,163)

Contributions

The Association expects to contribute $108 to its other postretirement plan in 2012.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Other Postretirement Benefits
2012	108
2013	109
2014	114
2015	113
2016	112
Years 2017 — 2021	538

Note 12 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2011 amounted to $3,371. During 2011, $1,082 of new loans and advances were made and repayments totaled $948. Generally, these loans do not involve more than normal risk of collectability. During the period covered in this report, a long-term mortgage loan totaling $1,489 at December 31, 2011 to a corporation 100% controlled by one of the Association's directors, Mr. Juan Santiago, was classified "Substandard" due to more than normal risk of collectability as determined by the Association. This classification was the result of three identified credit weaknesses, (1) repayment capacity, (2) liquidity and (3) collateral coverage. The largest outstanding balance of the loan during 2011 was $1,598 and the balance outstanding at February 29, 2012, was $1,399. All required annual principal payments have been made on or before the contracted due date. The 2012 principal payment has been received in advance of the September 2013 loan maturity. Mr. Santiago submitted a plan to the Association to minimize or eliminate the identified credit weaknesses in January 2012. The Board of Directors approved the plan with minor modifications and expects the Director to comply with the requirements of the plan by June 2012.

Note 13 — Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and commercial letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2011, $18,591 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2011, the Association had outstanding $746 of standby letters of credit, with expiration dates ranging from January 1, 2012 to August 1, 2014. The maximum potential amount of future payments the Association may be required to make under these existing guarantees is $746.

A guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the guarantee commitment. The Association has determined the fair value of the guarantee commitment based upon the fees to be earned over the life of the guarantee. The fair value is updated periodically to reflect changes in individual guarantee amounts and the remaining life to maturity of the individual guarantees in the Association's inventory. At December 31, 2011, the Association's inventory of standby letters of credit had a fair value of $22 and was included in other liabilities.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

During 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). At December 31, 2011 there were no outstanding commitments to make additional equity purchases in the RBIC.

Actions are pending against the Association in which claims for monetary damages are asserted. Upon the basis of current information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association.

Note 14 — Fair Value Measurement

FASB guidance defines fair value, establishes a framework for measuring fair value and requires 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 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 had no Level 1 assets or liabilities at December 31, 2011.

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 had no Level 2 assets and liabilities measured at fair value on a recurring basis at December 31, 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 be instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at December 31, 2011 included impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value considered 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 was classified as a Level 3 asset at December 31, 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 December 31, 2011 included 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 December 31, 2011, 2010, and 2009 for each of the fair value hierarchy levels:

December 31, 2011	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 22	$ 22
Total Liabilities	$ –	$ –	$ 22	$ 22

December 31, 2010	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 31	$ 31
Total Liabilities	$ –	$ –	$ 31	$ 31

December 31, 2009	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 40	$ 40
Total Liabilities	$ –	$ –	$ 40	$ 40

The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during 2011, 2010, or 2009. The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for 2011, 2010, and 2009:

	Standby Letters Of Credit
Balance at January 1, 2011	$ 31
Total gains or (losses) realized/unrealized	
Included in earnings	–
Included in other comprehensive loss	–
Purchases	–
Sales	–
Issuances	–
Settlements	(9)
Transfers in and/or out of level 3	–
Balance at December 31, 2011	$ 22

	Standby Letters Of Credit
Balance at January 1, 2010	$ 40
Total gains or (losses) realized/unrealized	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	(9)
Transfers in and/or out of level 3	–
Balance at December 31, 2010	$ 31

	Standby Letters Of Credit
Balance at January 1, 2009	$ 45
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	(5)
Transfers in and/or out of level 3	–
Balance at December 31, 2009	$ 40

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 December 31, 2011, 2010, and 2009 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	$ –	$ –	$ 4,779	$ 4,779	$ (2,732)
Other property owned	$ –	$ –	$ 1,376	$ 1,376	$ (205)

December 31, 2010	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 4,457	$ 4,457	$ (8,003)
Other property owned	$ –	$ –	$ 2,020	$ 2,020	$ (112)

December 31, 2009	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 2,614	$ 2,614	$ (2,319)
Other property owned	$ –	$ –	$ 600	$ 600	$ 89

Note 15 — Disclosures About Fair Value Of Financial Instruments

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2011, 2010, and 2009.

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:

	December 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	$ 164	$ 164	$ 928	$ 928
Loans, net of allowance	$ 171,900	$ 171,206	$ 184,403	$ 175,271
Accrued interest receivable	$ 568	$ 568	$ 579	$ 579
Notes receivable from other Farm Credit Institutions	$ 10,000	$ 10,735	$ 10,000	$ 10,864
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 143,638	$ 144,810	$ 157,077	$ 156,213

	December 31, 2009	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 162	$ 162
Loans, net of allowance	$ 224,506	$ 224,200
Accrued interest receivable	$ 864	$ 864
Notes receivable from other Farm Credit Institutions	$ 10,000	$ 10,542
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 187,612	$ 187,910

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.

C. **Accrued Interest Receivable**: The carrying value of accrued interest approximates its fair value.

D. **Investment in Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 4, the net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying balance sheet. The Association owns 0.77 percent of the issued stock of the Bank as of December 31, 2011 net of any reciprocal investment. As of that date, the Bank's assets totaled $29.6 billion and shareholders' equity totaled $2.1 billion. The Bank's earnings were $385 million during 2011.

E. **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) 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 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.

F. **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.

G. **Notes Receivable from Other Farm Credit Institutions:** Fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.

Note 16 — Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2011, 2010, and 2009 follow:

2011	First	Second	Third	Fourth	Total
Net interest income	$ 1,056	$ 984	$ 1,004	$ 1,097	$ 4,141
Provision for (reversal of allowance for) loan losses	–	671	1,302	356	2,329
Noninterest income (expense), net	(838)	(602)	(1,044)	(320)	(2,804)
Net income (loss)	$ 218	$ (289)	$ (1,342)	$ 421	$ (992)

2010	First	Second	Third	Fourth	Total
Net interest income	$ 1,054	$ 1,004	$ 990	$ 848	$ 3,896
Provision for (reversal of allowance for) loan losses	(213)	(20)	430	9,193	9,390
Noninterest income (expense), net	(56)	(848)	(438)	(508)	(1,850)
Net income (loss)	$ 1,211	$ 176	$ 122	$ (8,853)	$ (7,344)

2009	First	Second	Third	Fourth	Total
Net interest income	$ 1,144	$ 1,035	$ 1,009	$ 1,357	$ 4,545
Provision for (reversal of allowance for) loan losses	584	1,501	969	258	3,312
Noninterest income (expense), net	(554)	(624)	(522)	(393)	(2,093)
Net income (loss)	$ 6	$ (1,090)	$ (482)	$ 706	$ (860)

Note 17 – Regulatory Enforcement Matters

On March 17, 2011 the Farm Credit Administration (FCA) entered into a written Supervisory Agreement (SA) with the Board of Directors of the Association. This agreement supersedes FCA Supervisory Letters dated July 23, 2009, March 2, 2010, and December 10, 2010 and incorporates certain requirements from these letters. The Supervisory Agreement requires the Association to take certain corrective and precautionary measures with respect to some Association practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality, allowance for loan losses and collateral risk management, and capital markets and participation activities. In addition, the SA prohibits the Association from distributing patronage-sourced income without FCA consent.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, perceived weaknesses in board governance, reduced earnings and liquidity. The Association has met milestones in compliance with the agreement to correct weaknesses in its board governance and operation, fiduciary duties, nominating committee procedures, development of the business plan, management development, allowance for loan losses and collateral risk management, review of the capital markets portfolio policies and procedures, however, all required measures have not been achieved or completed as of the date of this report. The FCA provided the Board of Directors and the ACA with a "partial compliance" rating in October 4, 2011. On February 14, 2012 again FCA communicated in a letter to the Board that it had achieved incremental progress towards complying with the Agreement but that improved business results had not yet materialized. The Association had achieved full compliance in 4 out 17 items, substantial compliance in 6 out of 17 items and partial compliance in 7 out 17 items.

The Board is addressing the requirements of the as reflected by improved board governance and operation, adoption of a revised and improved collateral risk management policy and procedure, adoption of an Asset Quality Improvement Plan and, preparation of a revised business plan, amongst other initiatives.

All required measures have not been achieved or completed as of the date of this report and the Board of Directors continues to work with the management team in improving the areas identified in the Supervisory Agreement. Besides the ongoing corrective actions already mentioned, other actions to be taken target improvement in board governance, risk management and audit practices.

The Board will also continue engaging a board consultant to provide advice to the Board in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement.

Both the Board of Directors and Senior Management are committed to continuing the administration of the Association in a sound manner, compliant with all FCA Regulations.

The Association remained under written supervisory agreement as of the date of this report.

Note 18 – Subsequent Events

The Association has evaluated subsequent events and has determined there are none requiring disclosure through March 13, 2012, which is the date the financial statements were available to be issued.