Puerto Rico Farm Credit, ACA

FIRST QUARTER 2012

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2012 quarterly 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. Fernández
Chief Executive Officer

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

Nydia J. Acevedo
Controller

May 9, 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 March 31, 2012. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of March 31, 2012, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2012.

Ricardo L. Fernández
Chief Executive Officer

Nydia J. Acevedo
Controller

May 9, 2012

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

(dollars in thousands)

The following commentary reviews the consolidated financial condition and results of operations of Puerto Rico Farm Credit, ACA (Association) for the three months ended March 31, 2012. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, and the 2011 annual report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing short and intermediate-term loans and long-term real estate mortgage loans. The Association also maintains a portfolio of purchased loans, originated by other Farm Credit System entities and non-system entities. The Association's predominant chartered territory agricultural commodities were dairy, livestock, rural home and field crops which totaled approximately $106,557 or 59.6 percent of all outstanding loan volume at March 31, 2012.

The outstanding loan volume of the Association at March 31, 2012 was $169,517 a decrease of $5,865 or 3.34 percent as compared to $175,382 at December 31, 2011. Loans originated within the Association's chartered territory were lower by approximately $1,852, while participation loans purchased decreased by approximately $4,013.

Net loans outstanding at March 31, 2012 totaled $166,071 as compared to $171,900 at December 31, 2011. Net loans at March 31, 2012 made up 89.87 percent of total assets, higher than the 89.61 percent at December 31, 2011.

As a percentage of outstanding loans, nonaccrual loans totaled 10.14 percent at March 31, 2012, compared with 9.66 percent at December 31, 2011. The increase in the percentage of nonaccrual loan volume during the first three months of 2012 was primarily a result of the decrease in the outstanding loans. In addition, one chartered territory loan and one participation loan were transferred into nonaccrual. This increase in the nonaccrual balance was partially offset by the transfer to acquired property of two nonaccrual chartered territory loans. Some borrowers in have continued to find it difficult to maintain payments current in a depressed economic environment. However, the overall delinquency rate for the chartered territory accruing loan portfolio has remained stable, as a result of good credit administration practices and lower interest rate environment.

Management continues to monitor and remains cautious about the credit quality of certain chartered territory and participation loans through 2012.

The allowance for loan losses decreased by $36 to $3,446 at March 31, 2012, from $3,482 at December 31, 2011. The decrease was primarily due to charge offs recorded on various nonaccrual loans transferred to acquired property that reduced the specific allowance for the impaired loans.

The Allowance to Outstanding Loan volume ratio increased to 2.03 percent at March 31, 2012 from 1.99 percent at December 31, 2011 as a result of a decrease in loan volume. During the first three months of 2012, charge-offs net of recoveries totaled $38.

Management anticipates additional provision expense and charge-off activity during the balance of 2012, mainly related to the participation portfolio. Several industries in the United States, in which the Association participated loans such as, ethanol, forestry and poultry, continue experiencing economic hardship, thereby, reducing the repayment capacity of specific borrowers. Enhanced stress-testing of the allowance may also lead to additional provision expense in 2012.

The Association will continue to search for opportunities to fulfill its 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.

RESULTS OF OPERATIONS

For the three months ended March 31, 2012

For the first quarter of 2012, the Association recognized net income of $185, a decrease of $33 when compared to a net income from operations of $218 for the first quarter of 2011. The primary driver of this decrease was due to the reduction in net interest income that totaled $35 for the first quarter.

Net interest income for the three months ended March 31, 2012 was $1,024 compared to $1,059 for the three months ended March 31, 2011. Interest income decreased year-over-year primarily due to lower accruing loan volume because various loans were transferred to nonaccrual status. This was offset by a reduction in the cost of funds and improved spreads on the new money disbursed which sustained net interest income.

Noninterest income for the first quarter of 2012, including net gains or losses on other property owned, was $418 or 29.41 percent higher than the $323 recognized during the first quarter of 2011. The increase was related to prior year net losses recorded on acquired properties.

For the first quarter of 2012, noninterest expense increased by $92, from $1,164 to $1,256 as compared to the first quarter of 2011. The increase for the quarter was primarily related to one time severance payments and other operating expenses related to compliance with the FCA Supervisory Agreement.

Key Results of Operations Ratios

	Annualized for the three months ended 3/31/12	For the year ended 12/31/11
Return on Average Assets	.39%	(0.50)%
Return on Average Equity	1.62%	(2.14)%
Net Interest Income as a Percentage of Average Earning Assets	2.47%	2.34%

LIQUIDITY AND FUNDING SOURCES

Liquidity

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. Sufficient liquid funds have been available to meet all financial obligations.

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate notes. The variable rate notes are utilized by the Association to fund variable rate loan advances and operating fund requirements.

The total notes payable to the Bank at March 31, 2012 were $136,117 as compared with $143,364 at December 31, 2011. The decrease of $7,247 or 5.05 percent corresponded closely to the decrease in outstanding loan volume of $5,865.

The Association had no lines of credit outstanding with third parties as of March 31, 2012.

Funds Management

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers variable and fixed rate loan products which are competitively priced according to local market rates. Variable rate loans are generally indexed to either the Prime rate or the London Interbank Offered Rate (LIBOR). The majority of the interest rate risk in the Association balance sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control interest rate risk associated with the loan portfolio.

CAPITAL RESOURCES

Total members' equity at March 31, 2012 increased .42 percent to $46,004 from December 31, 2011 when total members' equity was $45,813. The increase of $191 was primarily attributable to the year-to-date net income which totaled $185 at March 31, 2012.

Total capital stock and participation certificates were $638 on March 31, 2012 compared to $648 on December 31, 2011. The decrease of $10 was the net result of refunding more stock to non-borrowing stockholders than new stockholders purchasing capital stock or participation certificates.

Unallocated retained earnings increased $185 or .41 percent from December 31, 2011 when unallocated retained earnings totaled $45,813. The decrease was from a net income during the first three months of 2012.

The Association's regulatory permanent capital ratio at March 31, 2012 was 19.86 percent compared to 18.61 percent at December 31, 2011. The Association's total surplus and core surplus ratios were both 19.47 percent at March 31, 2012. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

Key financial condition ratios were as follows:

	3/31/12	12/31/11
Total Members' Equity to Asset	24.89%	23.88%
Debt to Total Members' Equity	3.02:1	3.19:1

REGULATORY MATTERS

FCA Supervisory Agreement

As previously disclosed, 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, FCA again 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.
- Building a cohesive senior management team.
- 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at its website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-981-3323, or writing Nydia J. Acevedo, Controller, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936-3649, or accessing the website, *www.puertoricofarmcredit.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

Puerto Rico Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2012	March 31, 2011	December 31, 2011
	(unaudited)	*(unaudited)*	*(audited)*
Assets			
Cash	$ 184	$ 139	$ 164
Loans	169,517	185,719	175,382
Less: allowance for loan losses	3,446	3,984	3,482
Net loans	166,071	181,735	171,900
Notes receivable from other Farm Credit institutions (Note 5)	10,000	10,000	10,000
Accrued interest receivable	660	738	568
Investments in other Farm Credit institutions	2,706	3,162	2,706
Premises and equipment, net	891	998	916
Other property owned	2,597	2,586	2,489
Deferred tax asset, net	16	—	—
Due from AgFirst Farm Credit Bank	279	299	1,479
Other assets	1,386	1,778	1,610
Total assets	$ 184,790	$ 201,435	$ 191,832
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 136,117	$ 151,900	$ 143,364
Accrued interest payable	255	304	274
Other liabilities	2,414	2,647	2,381
Total liabilities	138,786	154,851	146,019
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	638	675	648
Unallocated retained earnings	45,071	46,096	44,886
Accumulated other comprehensive income (loss)	295	(187)	279
Total members' equity	46,004	46,584	45,813
Total liabilities and members' equity	$ 184,790	$ 201,435	$ 191,832

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2012	2011
Interest Income		
Loans	$ 1,571	$ 1,745
Notes receivable from other Farm Credit institutions (Note 5)	225	225
Total interest income	1,796	1,970
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	772	911
Net interest income	1,024	1,059
Provision for loan losses	1	—
Net interest income after provision for loan losses	1,023	1,059
Noninterest Income		
Loan fees	21	55
Patronage rebate fees	59	58
Patronage refunds from other Farm Credit institutions	279	299
Gains (losses) on other property owned, net	17	(102)
Other noninterest income	42	13
Total noninterest income	418	323
Noninterest Expense		
Salaries and employee benefits	816	773
Occupancy and equipment	67	68
Insurance Fund premiums	21	26
Other operating expenses	352	297
Total noninterest expense	1,256	1,164
Net income	$ 185	$ 218

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2012	2011
Net income	$ 185	$ 218
Other comprehensive income net of tax		
Employee benefit plans adjustments	16	21
Comprehensive income	$ 201	$ 239

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	**Capital Stock and Participation Certificates**	**Unallocated Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Total Members' Equity**
Balance at December 31, 2010	$ 679	$ 45,878	$ (208)	$ 46,349
Comprehensive income		218	21	239
Capital stock/participation certificates issued/(retired), net	(4)			(4)
Balance at March 31, 2011	$ 675	$ 46,096	$ (187)	$ 46,584
Balance at December 31, 2011	$ 648	$ 44,886	$ 279	$ 45,813
Comprehensive income		185	16	201
Capital stock/participation certificates issued/(retired), net	(10)			(10)
Balance at March 31, 2012	$ 638	$ 45,071	$ 295	$ 46,004

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

Puerto Rico Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

The accompanying financial statements include the accounts of Puerto Rico Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2011, are contained in the 2011 Annual Report of the Association. These unaudited first quarter 2012 consolidated financial statements should be read in conjunction with the 2011 Annual Report of the Association.

The accompanying consolidated financial statements contain all necessary adjustments for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the three months ended March 31, 2012 are not indicative of the results to be expected for the year ending December 31, 2012.

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2012, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This amendment is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity 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 did not impact the Association's financial condition or results of operations, but resulted in changes to the presentation of comprehensive income. In December 2011, the FASB issued guidance (ASU 2011-12; Topic 220) to defer the new requirement to present components of accumulated other comprehensive income reclassified as components of net income on the face of the financial statements. All other requirements in the guidance for comprehensive income 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 did not impact the Association's financial condition or results of operations, but resulted 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, for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The guidance should be applied retrospectively to the beginning of the annual period of adoption. The new disclosures about TDR activity required by the guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," as discussed below, are effective for annual reporting periods ending after December 15, 2011.

In January 2011, the FASB issued ASU 2011-01, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This amendment temporarily delayed the effective date of the disclosures about TDRs required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about TDRs coincides with the guidance for determining what constitutes a TDR as described above. The adoption of this guidance had no material impact on the Association's financial condition and results of operations but resulted in significant additional disclosures.

Other recently issued accounting pronouncements are discussed in the 2011 Annual Report to Shareholders.

Note 2 — Loans and Allowance for Loan Losses

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

	March 31, 2012	December 31, 2011
Real estate mortgage	$ 111,412	$ 113,241
Production and intermediate-term	30,143	32,628
Agribusiness		
Processing and marketing	5,629	6,559
Farm-related business	722	732
Total agribusiness	6,351	7,291
Communication	1,313	1,261
Energy	2,020	2,480
Rural residential real estate	18,278	18,481
Total Loans	$ 169,517	$ 175,382

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. Participations purchased and sold balances at period end were as follows:

	March 31, 2012							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,872	$ 10,278	$ –	$ –	$ 1,060	$ –	$ 2,932	$ 10,278
Production and intermediate term	19,754	–	–	–	893	–	20,647	–
Agribusiness								
Processing and marketing	4,816	–	–	–	758	–	5,574	–
Farm-related business	–	–	–	–	693	–	693	–
Total agribusiness	4,816	–	–	–	1,451	–	6,267	–
Communication	1,391	–	–	–	–	–	1,391	–
Energy	2,021	–	–	–	–	–	2,021	–
Total	$ 29,854	$ 10,278	$ –	$ –	$ 3,404	$ –	$ 33,258	$ 10,278

	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

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 March 31, 2012 and indicates that approximately 33.63 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	$ 27,558	$ 49,419	$ 34,435	$ 111,412
Production and intermediate-term	22,517	5,909	1,717	30,143
Agribusiness				
Processing and marketing	3,073	1,435	1,121	5,629
Farm-related business	–	4	718	722
Total agribusiness	3,073	1,439	1,839	6,351
Communication	1,361	(48)	–	1,313
Energy	2,021	(1)	–	2,020
Rural residential real estate	482	321	17,475	18,278
Total Loans	$ 57,012	$ 57,039	$ 55,466	$ 169,517

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.

	March 31, 2012	December 31, 2011
Real estate mortgage:		
Acceptable	82.68%	82.64%
OAEM	2.65	2.69
Substandard/doubtful/loss	14.67	14.67
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	64.45%	69.54%
OAEM	17.51	13.07
Substandard/doubtful/loss	18.04	17.39
	100.00%	100.00%
Agribusiness:		
Processing and marketing:		
Acceptable	52.43%	57.24%
OAEM	21.82	18.94
Substandard/doubtful/loss	25.75	23.82
	100.00%	100.00%
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2012	December 31, 2011
Total agribusiness:		
Acceptable	57.82%	61.52%
OAEM	19.34	17.05
Substandard/doubtful/loss	22.84	21.43
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	92.07%	91.11%
OAEM	2.19	3.67
Substandard/doubtful/loss	5.74	5.22
	100.00%	100.00%
Total Loans:		
Acceptable	79.86%	80.59%
OAEM	5.82	5.26
Substandard/doubtful/loss	14.32	14.15
	100.00%	100.00%

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

March 31, 2012	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,954	$ 10,396	$ 12,350	$ 99,457	$ 111,807	$ –
Production and intermediate-term	–	3,674	3,674	26,559	30,233	–
Agribusiness						
Processing and marketing	–	(2)	(2)	5,669	5,667	–
Farm-related business	–	–	–	724	724	–
Total agribusiness	–	(2)	(2)	6,393	6,391	–
Communication	–	–	–	1,313	1,313	–
Energy and water/waste disposal	–	–	–	2,020	2,020	–
Rural residential real estate	917	190	1,107	17,231	18,338	–
Total	$ 2,871	$ 14,258	$ 17,129	$ 152,973	$ 170,102	$ –

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 and water/waste disposal	–	–	–	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	$ –

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

Nonperforming assets (including related accrued interest) and related credit quality statistics at period end were as follows:

	March 31, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 11,024	$ 11,239
Production and intermediate-term	5,454	4,964
Agribusiness		
Processing and marketing	(2)	(2)
Rural residential real estate	720	734
Total nonaccrual loans	$ 17,196	$ 16,935
Accruing restructured loans:		
Real estate mortgage	$ 4,014	$ 4,021
Total accruing restructured loans	$ 4,014	$ 4,021
Accruing loans 90 days or more past due:	$ –	$ –
Total nonperforming loans	$ 21,210	$ 20,956
Other property owned	2,597	2,489
Total nonperforming assets	$ 23,807	$ 23,445
Nonaccrual loans as a percentage of total loans	10.14%	9.66%
Nonperforming assets as a percentage of total loans and other property owned	13.83%	13.18%
Nonperforming assets as a percentage of capital	51.75%	51.18%

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

	March 31, 2012	December 31, 2011
Impaired nonaccrual loans:		
Current as to principal and interest	$ 2,133	$ 1,379
Past due	15,063	15,556
Total impaired nonaccrual loans	17,196	16,935
Impaired accrual loans:		
Restructured	4,014	4,021
90 days or more past due	–	–
Total impaired accrual loans	4,014	4,021
Total impaired loans	$ 21,210	$ 20,956

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

	March 31, 2012			Quarter Ended March 31, 2012	
	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	$ 3,057	$ 3,031	$ 620	$ 3,016	$ –
Production and intermediate-term	3,674	9,450	486	3,624	1
Agribusiness					
Processing and marketing	–	–	–	–	–
Rural residential real estate	271	283	53	268	–
Total	$ 7,002	$ 12,764	$ 1,159	$ 6,908	$ 1
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 11,981	$ 14,534	$ –	$ 11,820	$ 2
Production and intermediate-term	1,780	1,904	–	1,756	–
Agribusiness					
Processing and marketing	(2)	655	–	(2)	–
Rural residential real estate	449	503	–	442	–
Total	$ 14,208	$ 17,596	$ –	$ 14,016	$ 2
Total impaired loans:					
Real estate mortgage	$ 15,038	$ 17,565	$ 620	$ 14,836	$ 2
Production and intermediate-term	5,454	11,354	486	5,380	1
Agribusiness					
Processing and marketing	(2)	655	–	(2)	–
Rural residential real estate	720	786	53	710	–
Total	$ 21,210	$ 30,360	$ 1,159	$ 20,924	$ 3

	December 31, 2011			Year Ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 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

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 March 31, 2012.

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

	March 31, 2012						
	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, 2011	$ 1,359	$ 657	$ 1,273	$ 7	$ 2	$ 184	$ 3,482
Charge-offs	(39)	–	–	–	–	–	(39)
Recoveries	2	–	–	–	–	–	2
Provision for loan losses	418	132	(554)	1	1	3	1
Balance at March 31, 2012	$ 1,740	$ 789	$ 719	$ 8	$ 3	$ 187	$ 3,446
March 31, 2012 allowance ending balance:							
Loans individually evaluated for impairment	$ 620	$ 486	$ –	$ –	$ –	$ 53	$ 1,159
Loans collectively evaluated for impairment	$ 1,120	$ 303	$ 719	$ 8	$ 3	$ 134	$ 2,287
Recorded investment in loans outstanding:							
Ending Balance at March 31, 2012	$ 111,807	$ 30,233	$ 6,391	$ 1,313	$ 2,020	$ 18,338	$ 170,102
March 31, 2012 recorded investment ending balance:							
Loans individually evaluated for impairment	$ 10,587	$ 5,480	$ –	$ –	$ –	$ 271	$ 16,338
Loans collectively evaluated for impairment	$ 101,220	$ 24,753	$ 6,391	$ 1,313	$ 2,020	$ 18,067	$ 153,764

	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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about activity that occurred during the period presented, related to TDRs. The tables do not include purchased credit impaired loans. There were no TDRs for the quarter ended March 31, 2011.

	Three months ended March 31, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ –	$ 34	$ 34
Total	$ –	$ –	$ 34	$ 34

	Three months ended March 31, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ –	$ 19	$ 19	$ (12)	$ –
Total	$ –	$ –	$ 19	$ 19	$ (12)	$ –

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.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the first quarter of 2012. Payment default is defined as a payment that was thirty days or more past due.

TDRs outstanding at period end totaled $13,054, of which $9,040 were in nonaccrual status.

NOTE 3 – COMMITMENTS AND CONTINGENT LIABILITIES

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

NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31, 2012	For the three months ended March 31, 2011
Pension	$ 263	$ 293
401(k)/1165(e)	12	9
Other postretirement benefits	45	59
Total	$ 320	$ 361

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

	Actual YTD Through 3/31/12	Projected Contributions For Remainder of 2012	Projected Total Contributions 2012
Pension	$ –	$ 815	$ 815
Other postretirement benefits	29	79	108
Total	$ 29	$ 894	$ 923

Contributions in the above table include an allocated estimate of funding for the multi-employer pension plan in which the Association participates. The projected amount may change when a total funding amount and allocation is determined by the pension Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change the contribution necessary before the next plan measurement date of December 31, 2012.

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

NOTE 5 – NOTES RECEIVABLE FROM OTHER FARM CREDT 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 – 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 earnings covenant under the GFA at December 31, 2011. The default allows the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank has allowed the Association to continue to operate under a special credit agreement (SCA) pursuant to its GFA. On April 27, 2012, the Bank granted an extension of the SCA to the Association through June 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. At March 31, 2012, the Association was in compliance with the SCA, which expires June 30, 2012.

NOTE 7 – 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 nonrecurring basis. These assets and liabilities consist primarily of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 0.78 percent of the issued stock of the Bank as of March 31, 2012 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.1 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $123 million for the first three months of 2012. In addition, the Association has no investment related to other Farm Credit institutions.

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

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 March 31, 2012. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association had no Level 2 assets or liabilities measured at fair value on a recurring basis at March 31, 2012.

The carrying value of accrued interest approximates its fair value.

Level 3

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

Level 3 assets at March 31, 2012 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. .

Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves (see Level 3 below).

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

Other property owned is classified as a level 3 asset at March 31, 2012. The fair value 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. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

For 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.

Information about Sensitivity to Changes in Significant Unobservable Inputs

For certain recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Other fair value measurements may use contractual payments and a risk adjusted discount rate, which is generated using the Association's 14-point risk rating scale. An increase in risk rating will generally produce a lower fair value measurement.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2012 and 2011. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first three months of 2012 and 2011.

	Standby Letters Of Credit
Balance at January 1, 2012	$ 22
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income (loss)	–
Purchases	–
Sales	–
Issuances	–
Settlements	(4)
Transfers in and/or out of level 3	–
Balance at March 31, 2012	$ 18

	Standby Letters Of Credit
Balance at January 1, 2011	$ 31
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income (loss)	–
Purchases	–
Sales	–
Issuances	3
Settlements	–
Transfers in and/or out of level 3	–
Balance at March 31, 2011	$ 34

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	Appraisal	Income and expense	*
		Comparable sales	*
		Replacement costs	*
		Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

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

	March 31, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Comprehensive Income
<u>Recurring Measurements</u>						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	$ –
Liabilities:						
Standby letters of credit	$ 18	$ –	$ –	$ 18	$ 18	$ –
Recurring Liabilities	$ 18	$ –	$ –	$ 18	$ 18	$ –
<u>Nonrecurring Measurements</u>						
Assets:						
Loans	$ 20,051	$ –	$ –	$ 20,051	$ 20,051	$ (3)
Other property owned	2,597	–	–	2,907	2,907	23
Nonrecurring Assets	$ 22,648	$ –	$ –	$ 22,958	$ 22,958	$ 20
<u>Other Financial Instruments</u>						
Assets:						
Cash	$ 184	$ 184	$ –	$ –	$ 184	
Loans	146,021	–	–	145,867	145,867	
Accrued interest receivable	660	–	660	–	660	
Notes receivable from other Farm Credit institutions	10,000	–	–	10,668	10,668	
Other Assets	$ 156,865	$ 184	$ 660	$ 156,535	$ 157,379	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 136,117	$ –	$ –	$ 137,624	$ 137,624	
Accrued interest payable	255	–	255	–	255	
Other Liabilities	$ 136,372	$ –	$ 255	$ 137,624	$ 137,879	

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

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

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

	December 31, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 4,779	$ 4,779	$ (2,732)
Other property owned	$ –	$ –	$ 1,376	$ 1,376	$ (205)

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

	December 31, 2011	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 164	$ 164
Loans, net of allowance	$ 171,900	$ 171,206
Accrued interest receivable	$ 568	$ 568
Notes receivable from other Farm Credit Institutions	$ 10,000	$ 10,735
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 143,638	$ 144,810

NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Employee Benefit Plans
Balance at December 31, 2010	$ (208)
Other comprehensive income	21
Balance at March 31, 2011	$ (187)
Balance at December 31, 2011	$ 279
Other comprehensive income	16
Balance at March 31, 2012	$ 295

	For the three months ended March 31, 2012	2011
Other Comprehensive Income and Reclassification Amounts:		
Amounts reclassified to net periodic pension costs	$ 16	$ 21
Defined benefit post retirement plans, net	$ 16	$ 21

NOTE 9 – REGULATORY ENFORCEMENT MATTERS

As previously disclosed, 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, FCA again 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.
- Building a cohesive senior management team.
- 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.

NOTE 10 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined that, except as described below, there are none requiring disclosure through May 9, 2012, which is the date the financial statements were issued.

In April 2012, the Association accrued $679 thousand due to an insurance premium refund from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. This payment is nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.