Puerto Rico Farm Credit, ACA

THIRD QUARTER 2012

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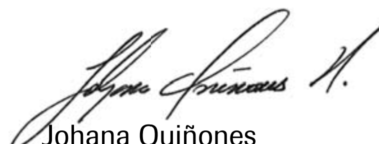
CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2012 quarterly report of 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.

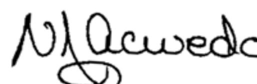
Robert G. Miller
Chairman of Board of Directors

Ricardo L. Fernández
Chief Executive Officer

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



Johana Quiñones
Director of Finance, Risk
Management and Internal Control



Nydia J. Acevedo
Controller

November 8, 2012

Puerto Rico Farm Credit, ACA

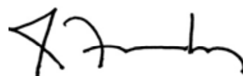
Report on Internal Control Over Financial Reporting

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

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

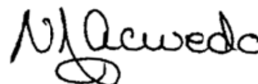
The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2012. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of September 30, 2012, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2012.



Ricardo L. Fernández
Chief Executive Officer

Johana Quinones
Director of Finance
Risk Management and Internal Control



Nydia J. Acevedo
Controller

November 8, 2012

Puerto Rico Farm Credit, ACA

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 nine months ended September 30, 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 fruits which totaled approximately $99,825 or 56.37 percent of the gross principal balance, net of sold loans, at September 30, 2012.

The outstanding loan volume of the Association at September 30, 2012 was $169,076 for a decrease of $6,306 or 3.60 percent as compared to $175,382 at December 31, 2011. Loans originated within the Association's chartered territory were lower by approximately $4,591, while participation loans purchased decreased by approximately $1,715.

Net loans outstanding at September 30, 2012 totaled $165,847 as compared to $171,900 at December 31, 2011. The decrease in the net loan volume is attributed to scheduled repayments in the loan portfolio and a reduced demand for credit in the market. Net loans made up 90.28 percent of total assets at September 30, 2012, as compared to 89.6 percent at December 31, 2011.

As a percentage of outstanding loans, non-accrual loans totaled 8.59 percent at September 30, 2012, compared with 9.66 percent at December 31, 2011. The decrease in the percentage of non-accrual loan volume during the first nine months of 2012 was primarily the result of four loans amounting $1,160 being transferred to acquired property (three chartered territory loans and one participation loan). In addition, various non-accrual loans amounting $6,386 were paid in full, for a total decrease of approximately $7,546. This reduction in the non-accrual portfolio was partially offset by various loans being transferred from accruing to non-accrual totaling approximately $5,693.

Some borrowers 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 a low 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 $253 to $3,229 at September 30, 2012, from $3,482 at December 31, 2011. The total allowance for loan losses to outstanding loan volume ratio decreased to 1.91 percent at September 30, 2012 from 1.99 percent at December 31, 2011. The decrease was primarily due to net charge-offs of $197 recorded on various non-accrual loans transferred to acquired property and payments in full for other non-accrual loans that eliminated their specific reserve. During the first nine months of 2012, charge-offs recognized totaled $350 while recoveries totaled $153. Enhanced stress-testing of the allowance for loan loss may lead to additional provision expense being incurred in 2012. The ACA is actively marketing acquired properties and may incur in accounting losses as sales are completed.

The current economic conditions indicate that the island has recuperated from its recession that began in 2006. However, economic growth is expected to be slow and incremental through the fiscal year 2014. Additionally, there is continuing uncertainty surrounding the US mainland economic recovery, partly due to fragile economic conditions abroad.

The U.S. drought has affected corn production and has led to increases in corn prices, the main input for many agricultural sectors. Local farmers in the poultry, dairy and livestock industries have seen feed costs rise but such increases have not been as tremendous as in the states. Typically, a $1 increase in corn prices does not translate to $1 increase in local feed cost and vice versa (if prices fall). Two reasons account for this peculiarity, first, transportation cost makes up a significant portion of the feed cost paid by island farmers, therefore, a $1 increase in corn price gets diluted in the overall price paid by local farmers. Secondly, the island receives corn produced from South America and this helps reduce corn price volatility better than in the U.S.

The ACA continues to monitor the impact of corn prices on the local poultry, dairy and livestock industries. The local poultry industry continues to do well with 6-7 flocks per year per grower. The local integrator has not reduced expected annual flocks or prices paid to growers. The Association's poultry portfolio is minimal and a significant portion of it is secured with government guarantees.

The dairy industry has been undergoing structural changes, year-to-date production is below previous years and more farmers are relying on pastures than feed to counteract the increase in corn price. The ACA continues to monitor events and there potential impact on our portfolio. The association lends just over 30% of total loans to this industry and is implementing risk management practices to reduce overall risk.

The local livestock industry which, relies heavily on pastures instead of feed has not been affected by increasing corn prices. The Associations' exposure in livestock is also minimal and borrowers in the industry continue to perform well.

Three industries in the United States, in which the Association participated loans such as, ethanol, forestry and poultry, continue experiencing economic hardship and borrowers in these industries continue to phase difficulty in maintaining repayment capacity. This has been further affected by the drought leading to increases in corn prices as mentioned before. Management expects that the ethanol industry will undergo significant change and it may adversely impact its valuation of one loan and one acquired property in the industry. Poultry integrators and grower cash flows are expected to improve in mid 2013 when corn prices are expected to decrease somewhat, improving margins and cash flows. Within the state-side participation portfolio, economic stress continues to be identified in industries related to and involved in developing "land-in-transition." The association has significantly reduced its exposure in such loans but, several remain in the portfolio, management continues to work together with other associations to promptly collect on these loans.

The Association will continue to search for opportunities to fulfill its public mission. The Board of Directors and management remain cautious of the ACA's ability to quickly grow the portfolio under the prevailing economic environment. Management 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 September 30, 2012

For the third quarter of 2012, the Association recognized a net loss from operations of $314 for an improvement of $1,028 when compared to a net loss from operations of $1,342 for the third quarter of 2011. The primary driver of this improvement was a decrease of $1,010 in the provision expense recognized as of September 30, 2012 when compared to the $1,302 provision expense recognized in the three month period ending September 30, 2011. Actual provision expense for the quarter was $296.

Net interest income for the three months ended September 30, 2012 was $1,250 compared to $1,004 for the three months ended September 30, 2011. Interest income increased year-over-year even though the accruing loan volume decreased primarily due to various loans transferred to non-accrual status. This was offset by a reduction in the cost of funds and improved spreads on new and serviced loans, which sustained net interest income.

Noninterest income for the three months ended September 30, 2012, including net gains or losses on other property owned, was $(45) compared to $234 for the same period in 2011, resulting in a decrease of $279. The decrease was mostly related with $186 additional loss due to various transactions of acquired properties; an $81 decrease in the loan fees and a decrease of $24 in the patronage refund from other Farm Credit institutions due to a decrease in the total portfolio average daily balance.

For the third quarter of 2012, noninterest expense decreased by $55, from $1,278 to $1,223 as compared to the third quarter of 2011. The decrease year-over-year is primarily attributed to a decrease in salaries and benefits; and a decrease in occupancy and equipment expense mainly due to a lower depreciation expense.

For the nine months ended September 30, 2012

For the nine months ended September 30, 2012, the Association recognized net income of $1,325. This was an increase of $2,738 as compared to a net loss of $1,413 for the first nine months of 2011. The increase primarily resulted from the recovery of various previously recorded charge-offs in participated loans for which, payments in full were received.. Additionally, during the second quarter of 2012, the Association received a nonrecurring insurance premium refund from the Farm Credit System Insurance Corporation (FCSIC) which totaled $679.

During the first nine months of 2012, interest income, primarily from accruing loans decreased by $42 or .73 percent. Interest expense related to the notes payable to AgFirst FCB (the Bank) decreased by $413 or 15.45 percent. Thus, net interest income increased by $371 or 12.17 percent. The increase in net interest income was due primarily to the reduction in the cost of funds and the improvements in the spreads on loans.

Noninterest income for the nine months as of September 30, 2012 was $1,550 or 42.46 percent higher than the $1,088 recognized during the nine months of 2011. The increase

was primarily attributable to the non-recurring income of $679 refund distributions received from the FCSIC during the second quarter of 2012.

Noninterest expense for the nine months ended September 30, 2012 increased by $124 or 3.47 percent compared to the same nine month period of 2011. The increase was primarily related to an increase of other operating expenses.

Although the Association is subject to federal income tax, the Association does not expect to incur a federal tax liability in 2012 due to the taxable loss carryforward. No provision for income taxes has been recognized in 2012.

Key Results of Operations Ratios

	Annualized for the nine months ended 9/30/12	For the year ended 12/31/11
Return on Average Assets	.95%	(0.50)%
Return on Average Equity	3.78%	(2.14)%
Net Interest Income as a Percentage of Average Earning Assets	2.53%	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 September 30, 2012 were $133,750 as compared with $143,364 at December 31, 2011. The decrease of $9,614 or 6.71 percent corresponded closely to the decrease in outstanding loan volume of $6,306. See Note 6 in the Notes to the Consolidated Financial Statements for additional information on the status of compliance with covenants under the General Financing Agreement.

The Association had no lines of credit outstanding with third parties as of September 30, 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 September 30, 2012 increased 2.93 percent to $47,156 from December 31, 2011 when total members' equity was $45,813. The increase of $1,343 was primarily attributable to the year-to-date net income which totaled $1,325 at September 30, 2012.

Total capital stock and participation certificates were $618 on September 30, 2012 compared to $648 on December 31, 2011. The decrease of $30 was the net result of refunding more stock to non-borrowing stockholders than new stockholders purchasing capital stock or participation certificates.

Unallocated retained earnings was $46,211 on September 30, 2012 for an increase of $1,325 or 2.95 percent from December 31, 2011 when unallocated retained earnings totaled $44,886. The increase was due to the net income during the first nine months of 2012.

The Association's regulatory permanent capital ratio at September 30, 2012 was 20.96 percent compared to 18.61 percent at December 31, 2011. The Association's total surplus and core surplus ratios were both 20.58 percent at September 30, 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:

	9/30/12	12/31/11
Total Members' Equity to Asset	25.67%	23.88%
Debt to Total Members' Equity	2.90:1	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 together to reach several milestones. The regulator has provided the Board of Directors several interim progress reports on compliance with the SA and delivered an in person report of examination to the Board of Directors on June 13, 2012. The Association has achieved full compliance in 4 out 17 items, substantial compliance in 8 out of 17 items and partial compliance in 5 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, undergoing several training sessions and changing leadership to improve governance of the Association.
- Revising the director candidate nominating procedures to qualify new candidates, which led to stockholders electing two new directors to the Board in 2012.
- Hiring a new CEO beginning on February 1, 2011 to lead the Association after the retirement of the previous CEO on June 30, 2010.
- Building a cohesive senior management team.
- Overseeing the implementation of updated collateral risk management policies and procedures that are in line with best practices in the industry.
- 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 a risk assessment process to assess risks and controls in the ACA.
- 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.

- Developing strategies for growing the Association's loan portfolio with high quality loans to improve asset quality and, enhance earnings and liquidity.
- Strengthening stress-testing capabilities and continuing execution of collateral risk management practices.

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)	September 30, 2012 (unaudited)	December 31, 2011 (audited)
Assets		
Cash	$ 556	$ 164
Loans	169,076	175,382
Less: allowance for loan losses	3,229	3,482
Net loans	165,847	171,900
Notes receivable from other Farm Credit institutions (Note 5)	10,000	10,000
Accrued interest receivable	682	568
Investments in other Farm Credit institutions	2,706	2,706
Premises and equipment, net	857	916
Other property owned	1,353	2,489
Deferred tax asset, net	17	—
Due from AgFirst Farm Credit Bank	825	1,479
Other assets	858	1,610
Total assets	$ 183,701	$ 191,832
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 133,750	$ 143,364
Accrued interest payable	249	274
Other liabilities	2,546	2,381
Total liabilities	136,545	146,019
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	618	648
Unallocated retained earnings	46,211	44,886
Accumulated other comprehensive income (loss)	327	279
Total members' equity	47,156	45,813
Total liabilities and members' equity	$ 183,701	$ 191,832

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Operations

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Interest Income				
Loans	$ 1,764	$ 1,651	$ 5,004	$ 5,046
Notes receivable from other Farm Credit institutions (Note 5)	225	225	675	675
Total interest income	1,989	1,876	5,679	5,721
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	739	872	2,260	2,673
Net interest income	1,250	1,004	3,419	3,048
Provision for (reversal of allowance for) loan losses	296	1,302	(56)	1,973
Net interest income (loss) after provision for (reversal of allowance for) loan losses	954	(298)	3,475	1,075
Noninterest Income				
Loan fees	(28)	53	50	176
Patronage rebate fees	51	56	166	173
Patronage refunds from other Farm Credit institutions	275	299	918	995
Gains (losses) on other property owned, net	(361)	(175)	(330)	(272)
Insurance Fund refunds	—	—	679	—
Other noninterest income	18	1	67	16
Total noninterest income (loss)	(45)	234	1,550	1,088
Noninterest Expense				
Salaries and employee benefits	782	806	2,333	2,339
Occupancy and equipment	55	86	199	226
Insurance Fund premiums	19	25	60	75
Other operating expenses	367	361	1,108	936
Total noninterest expense	1,223	1,278	3,700	3,576
Net income (loss)	$ (314)	$ (1,342)	$ 1,325	$ (1,413)

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Net income (loss)	$ (314)	$ (1,342)	$ 1,325	$ (1,413)
Other comprehensive income net of tax				
Employee benefit plans adjustments	16	21	48	63
Comprehensive income (loss)	$ (298)	$ (1,321)	$ 1,373	$ (1,350)

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 (loss)		(1,413)	63	(1,350)
Capital stock/participation certificates issued/(retired), net	(25)			(25)
Balance at September 30, 2011	$ 654	$ 44,465	$ (145)	$ 44,974
Balance at December 31, 2011	$ 648	$ 44,886	$ 279	$ 45,813
Comprehensive income		1,325	48	1,373
Capital stock/participation certificates issued/(retired), net	(30)			(30)
Balance at September 30, 2012	$ 618	$ 46,211	$ 327	$ 47,156

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

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 third 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 nine months ended September 30, 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 September 30, 2012, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This amendment is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity was eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). This guidance is to be applied retrospectively. For public entities, it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact the Association's financial condition or results of operations, but resulted in changes to the presentation of comprehensive income. In December 2011, the FASB issued guidance (ASU 2011-12; Topic 220) to defer the new requirement to present components of accumulated other comprehensive income reclassified as components of net income on the face of the financial statements. All other requirements in the guidance for comprehensive income were required to be adopted as set forth in the June 2011 guidance. The deferral is effective at the same time the new standard on comprehensive income is adopted.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or

liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The adoption of this guidance did not impact the Association's financial condition or results of operations, but resulted in significant additional disclosures.

In April 2011, the FASB issued ASU 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring (TDR). In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities, for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The guidance should be applied retrospectively to the beginning of the annual period of adoption. The new disclosures about TDR activity required by the guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," as discussed below, are effective for annual reporting periods ending after December 15, 2011.

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

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

Note 2 — Loans and Allowance for Loan Losses

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

	September 30, 2012	December 31, 2011
Real estate mortgage	$ 104,784	$ 113,241
Production and intermediate-term	38,105	32,628
Agribusiness		
Processing and marketing	4,057	6,559
Farm-related business	938	732
Total agribusiness	4,995	7,291
Communication	983	1,261
Energy	2,792	2,480
Rural residential real estate	17,417	18,481
Total Loans	$ 169,076	$ 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. Participation loan balances at period end were as follows:

	September 30, 2012							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 456	$ 11,705	$ –	$ –	$ 1,027	$ –	$ 1,483	$ 11,705
Production and intermediate term	22,113	2,200	–	–	2,806	–	24,919	2,200
Agribusiness								
Processing and marketing	3,293	–	–	–	703	–	3,996	–
Farm-related business	–	–	–	–	892	–	892	–
Total agribusiness	3,293	–	–	–	1,595	–	4,888	–
Communication	988	–	–	–	–	–	988	–
Energy	2,792	–	–	–	–	–	2,792	–
Total	$ 29,642	$ 13,905	$ –	$ –	$ 5,428	$ –	$ 35,070	$ 13,905

	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

Significant sources of liquidity for the Association are the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at September 30, 2012 and indicates that approximately 40.01 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	$ 36,390	$ 35,125	$ 33,269	$ 104,784
Production and intermediate-term	25,465	9,333	3,307	38,105
Agribusiness				
Processing and marketing	1,612	1,362	1,083	4,057
Farm-related business	–	47	891	938
Total agribusiness	1,612	1,409	1,974	4,995
Communication	988	(5)	–	983
Energy	2,792	–	–	2,792
Rural residential real estate	398	297	16,722	17,417
Total Loans	$ 67,645	$ 46,159	$ 55,272	$ 169,076

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type.

	September 30, 2012	December 31, 2011
Real estate mortgage:		
Acceptable	85.85%	82.64%
OAEM	1.47	2.69
Substandard/doubtful/loss	12.68	14.67
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	71.80%	69.54%
OAEM	14.20	13.07
Substandard/doubtful/loss	14.00	17.39
	100.00%	100.00%
Agribusiness:		
Processing and marketing:		
Acceptable	37.22%	57.24%
OAEM	27.36	18.94
Substandard/doubtful/loss	35.42	23.82
	100.00%	100.00%
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	September 30, 2012	December 31, 2011
Total agribusiness:		
Acceptable	48.97%	61.52%
OAEM	22.24	17.05
Substandard/doubtful/loss	28.79	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	91.81%	91.11%
OAEM	2.61	3.67
Substandard/doubtful/loss	5.58	5.22
	100.00%	100.00%
Total Loans:		
Acceptable	82.52%	80.59%
OAEM	5.04	5.26
Substandard/doubtful/loss	12.44	14.15
	100.00%	100.00%

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

	September 30, 2012					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 3,003	$ 5,165	$ 8,168	$ 97,009	$ 105,177	$ –
Production and intermediate-term	1,388	2,271	3,659	34,569	38,228	–
Agribusiness						
Processing and marketing	58	–	58	4,029	4,087	–
Farm-related business	–	–	–	941	941	–
Total agribusiness	58	–	58	4,970	5,028	–
Communication	–	–	–	984	984	–
Energy and water/waste disposal	–	–	–	2,793	2,793	–
Rural residential real estate	418	250	668	16,805	17,473	–
Total	$ 4,867	$ 7,686	$ 12,553	$ 157,130	$ 169,683	$ –

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

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

	September 30, 2012	December 31, 2011
Non-accrual loans:		
Real estate mortgage	$ 9,201	$ 11,239
Production and intermediate-term	4,098	4,964
Agribusiness		
Processing and marketing	560	(2)
Rural residential real estate	656	734
Total non-accrual loans	$ 14,515	$ 16,935
Accruing restructured loans:		
Real estate mortgage	$ 186	$ 4,021
Total accruing restructured loans	$ 186	$ 4,021
Accruing loans 90 days or more past due:	$ –	$ –
Total nonperforming loans	$ 14,701	$ 20,956
Other property owned	1,353	2,489
Total nonperforming assets	$ 16,054	$ 23,445
Non-accrual loans as a percentage of total loans	8.59%	9.66%
Nonperforming assets as a percentage of total loans and other property owned	9.42%	13.18%
Nonperforming assets as a percentage of capital	34.04%	51.18%

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

	September 30, 2012	December 31, 2011
Impaired non-accrual loans:		
Current as to principal and interest	$ 6,456	$ 1,379
Past due	8,059	15,556
Total impaired non-accrual loans	14,515	16,935
Impaired accrual loans:		
Restructured	186	4,021
90 days or more past due	–	–
Total impaired accrual loans	186	4,021
Total impaired loans	$ 14,701	$ 20,956

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

	September 30, 2012			Quarter Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 2,289	$ 2,179	$ 402	$ 2,741	$ 28	$ 3,065	$ 42
Production and intermediate-term	2,271	7,245	249	2,722	28	3,042	42
Agribusiness							
Processing and marketing	560	560	280	671	7	750	10
Rural residential real estate	372	409	34	446	5	498	7
Total	$ 5,492	$ 10,393	$ 965	$ 6,580	$ 68	$ 7,355	$ 101
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 7,098	$ 9,435	$ –	$ 8,506	$ 89	$ 9,507	$ 131
Production and intermediate-term	1,827	1,991	–	2,188	23	2,446	33
Agribusiness							
Processing and marketing	–	–	–	–	–	–	–
Rural residential real estate	284	336	–	340	3	381	5
Total	$ 9,209	$ 11,762	$ –	$ 11,034	$ 115	$ 12,334	$ 169
Total impaired loans:							
Real estate mortgage	$ 9,387	$ 11,614	$ 402	$ 11,247	$ 117	$ 12,572	$ 173
Production and intermediate-term	4,098	9,236	249	4,910	51	5,488	75
Agribusiness							
Processing and marketing	560	560	280	671	7	750	10
Rural residential real estate	656	745	34	786	8	879	12
Total	$ 14,701	$ 22,155	$ 965	$ 17,614	$ 183	$ 19,689	$ 270

	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 each reporting period.

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at June 30, 2012	$ 1,709	$ 615	$ 670	$ 10	$ 12	$ 174	$ 3,190
Charge-offs	(256)	–	(1)	–	–	–	(257)
Recoveries	–	–	–	–	–	–	–
Provision for loan losses	(274)	45	574	3	(8)	(44)	296
Balance at September 30, 2012	$ 1,179	$ 660	$ 1,243	$ 13	$ 4	$ 130	$ 3,229
Balance at December 31, 2011	$ 1,359	$ 657	$ 1,273	$ 7	$ 2	$ 184	$ 3,482
Charge-offs	(303)	(46)	(1)	–	–	–	(350)
Recoveries	153	–	–	–	–	–	153
Provision for loan losses	(30)	49	(29)	6	2	(54)	(56)
Balance at September 30, 2012	$ 1,179	$ 660	$ 1,243	$ 13	$ 4	$ 130	$ 3,229
Balance at June 30, 2011	$ 1,179	$ 831	$ 846	$ 8	$ 6	$ 130	$ 3,000
Charge-offs	(399)	(605)	(70)	–	–	–	(1,074)
Recoveries	–	–	–	–	–	–	–
Provision for loan losses	483	464	270	7	(1)	79	1,302
Balance at September 30, 2011	$ 1,263	$ 690	$ 1,046	$ 15	$ 5	$ 209	$ 3,228
Balance at December 31, 2010	$ 1,107	$ 153	$ 2,580	$ 17	$ 6	$ 140	$ 4,003
Charge-offs	(422)	(612)	(1,715)	–	–	–	(2,749)
Recoveries	1	–	–	–	–	–	1
Provision for loan losses	577	1,149	181	(2)	(1)	69	1,973
Balance at September 30, 2011	$ 1,263	$ 690	$ 1,046	$ 15	$ 5	$ 209	$ 3,228
Loans individually evaluated for impairment	$ 402	$ 249	$ 280	$ –	$ –	$ 34	$ 965
Loans collectively evaluated for impairment	777	411	963	13	4	96	2,264
Balance at September 30, 2012	$ 1,179	$ 660	$ 1,243	$ 13	$ 4	$ 130	$ 3,229
Loans individually evaluated for impairment	$ 677	$ 461	$ –	$ –	$ –	$ 56	$ 1,194
Loans collectively evaluated for impairment	682	196	1,273	7	2	128	2,288
Balance at December 31, 2011	$ 1,359	$ 657	$ 1,273	$ 7	$ 2	$ 184	$ 3,482
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	$ 9,304	$ 4,035	$ –	$ –	$ –	$ 372	$ 13,711
Loans collectively evaluated for impairment	95,873	34,193	5,028	984	2,793	17,101	155,972
Ending balance at September 30, 2012	$ 105,177	$ 38,228	$ 5,028	$ 984	$ 2,793	$ 17,473	$ 169,683
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
Ending balance at December 31, 2011	$ 113,561	$ 32,710	$ 7,328	$ 1,261	$ 2,481	$ 18,534	$ 175,875

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.

	Three months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ –	$ –	$ –
Total	$ –	$ –	$ –	$ –

Three months ended September 30, 2012						
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ –	$ –	$ –	$ –	$ –
Total	$ –	$ –	$ –	$ –	$ –	$ –

Nine months ended September 30, 2012				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ –	$ 34	$ 34
Total	$ –	$ –	$ 34	$ 34

Nine months ended September 30, 2012						
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ –	$ 19	$ 19	$ (12)	$ –
Total	$ –	$ –	$ 19	$ 19	$ (12)	$ –

Three months ended September 30, 2011				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ –	$ –	$ –
Production and intermediate-term	–	5,305	–	5,305
Total	$ –	$ 5,305	$ –	$ 5,305

Three months ended September 30, 2011						
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	–	4,829	–	4,829	–	–
Total	$ –	$ 4,829	$ –	$ 4,829	$ –	$ –

Nine months ended September 30, 2011				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 2,188	$ –	$ 2,188
Production and intermediate-term	–	7,894	–	7,894
Total	$ –	$ 10,082	$ –	$ 10,082

Nine months ended September 30, 2011						
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 2,156	$ –	$ 2,156	$ 214	$ (196)
Production and intermediate-term	–	7,418	–	7,418	546	(499)
Total	$ –	$ 9,574	$ –	$ 9,574	$ 760	$ (695)

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension.

Other concessions may include additional compensation received which might be in the form of cash or other assets.

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

TDRs outstanding at period end totaled $6,213, of which $6,027 were in non-accrual 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 nine months ended September 30,	
	2012	2011
Pension	$ 788	$ 878
401(k)/1165(e)	40	32
Other postretirement benefits	136	178
Total	$ 964	$ 1,088

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

	Actual YTD Through 9/30/12	Projected Contributions For Remainder of 2012	Projected Total Contributions 2012
Pension	$ –	$ 815	$ 815
Other postretirement benefits	91	17	108
Total	$ 91	$ 832	$ 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 July 1, 2012, one of the two associations carrying higher risk in its credit portfolio, merged with another association within the district, improving its risk profile to acceptable. This investment is no longer considered to carry higher risk than when it was purchased. The second association's loan portfolio maintains an acceptable credit risk profile as of the end of March 2012. Management does not consider 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 approved a waiver of the default and has allowed the Association to continue to operate under a special credit agreement (SCA). At September 30, 2012, the Association was in compliance with the earnings covenant under the SCA, which expires December 31, 2012.

NOTE 7 – FAIR VALUE MEASUREMENT

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 0.80 percent of the issued stock of the Bank as of September 30, 2012 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.8 billion and shareholders' equity totaled $2.5 billion. The Bank's earnings were $358 million for the first nine months of 2012. In addition, the Association has no investment related to other Farm Credit institutions.

The classifications of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association had no Level 1 assets or liabilities at September 30, 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 September 30, 2012.

The carrying value of accrued interest approximates its fair value.

Level 3

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

Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a non-accrual status are estimated to be the carrying amount of the loan less specific reserves .Level 3 assets 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. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal

payments on the Association’s loan receivables. This assumption implies that earnings on the Association’s interest margin are used to fund operating expenses and capital expenditures.

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

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

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.

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 periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

	Standby Letters Of Credit
Balance at January 1, 2012	$ 22
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income	–
Purchases	–
Sales	–
Issuances	–
Settlements	(10)
Transfers in and/or out of level 3	–
Balance at September 30, 2012	$ 12

	Standby Letters Of Credit
Balance at January 1, 2011	$ 31
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income	–
Purchases	–
Sales	–
Issuances	–
Settlements	(12)
Transfers in and/or out of level 3	–
Balance at September 30, 2011	$ 19

INFORMATION ABOUT SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Other Property Owned/Impaired Loans

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 15,121	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

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

	September 30, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Standby letters of credit	$ 12	$ –	$ –	$ 12	$ 12	
Recurring Liabilities	$ 12	$ –	$ –	$ 12	$ 12	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 13,736	$ –	$ –	$ 13,736	$ 13,736	$ 32
Other property owned	1,353	–	–	1,385	1,385	(321)
Nonrecurring Assets	$ 15,089	$ –	$ –	$ 15,121	$ 15,121	$ (289)
Other Financial Instruments						
Assets:						
Cash	$ 556	$ 556	$ –	$ –	$ 556	
Loans	152,111	–	–	151,785	151,785	
Accrued interest receivable	682	–	682	–	682	
Notes receivable from other Farm Credit institutions	10,000	–	–	10,450	10,450	
Other Assets	$ 163,349	$ 556	$ 682	$ 162,235	$ 163,473	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 133,750	$ –	$ –	$ 135,151	$ 135,151	
Accrued interest payable	249	–	249	–	249	
Other Liabilities	$ 133,999	$ –	$ 249	$ 135,151	$ 135,400	

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

Cumulative balances:

	Employee Benefit Plans
Balance at December 31, 2011	$ 279
Other comprehensive income	48
Balance at September 30, 2012	$ 327
Balance at December 31, 2010	$ (208)
Other comprehensive income	63
Balance at September 30, 2011	$ (145)

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Other Comprehensive Income and Reclassification Amounts:				
Amounts reclassified to net periodic pension costs	$ 16	$ 21	$ 48	$ 63
Net gain (loss) during period	–	–	–	–
Defined benefit post retirement plans, net	$ 16	$ 21	$ 48	$ 63

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 together to reach several milestones. The regulator has provided the Board of Directors several interim progress reports on compliance with the SA and delivered an in person report of examination to the Board of Directors on June 13, 2012. The Association has achieved full compliance in 4 out 17 items, substantial compliance in 8 out of 17 items and partial compliance in 5 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, undergoing several training sessions and changing leadership to improve governance of the Association.
- Revising the director candidate nominating procedures to qualify new candidates, which led to stockholders electing two new directors to the Board in 2012.

- Hiring a new CEO beginning on February 1, 2011 to lead the Association after the retirement of the previous CEO on June 30, 2010.
- Building a cohesive senior management team.
- Overseeing the implementation of updated collateral risk management policies and procedures that are in line with best practices in the industry.
- 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 a risk assessment process to assess risks and controls in the ACA.
- 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.

- Developing strategies for growing the Association's loan portfolio with high quality loans to improve asset quality and, enhance earnings and liquidity.
- Strengthening stress-testing capabilities and continuing execution of collateral risk management practices.

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 there are none requiring disclosure through November 8, 2012, which is the date the financial statements were issued.