*Ag***Georgia** *Farm Credit, ACA*

THIRD QUARTER 2012

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CERTIFICATION

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

Jack C. Drew, Jr.
Chief Executive Officer

Carrie B. McCall
Chief Financial Officer

Anne G. Sisk
Chairman of the Board

November 8, 2012

*Ag***Georgia** *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.

Jack C. Drew, Jr.
Chief Executive Officer

Carrie B. McCall
Chief Financial Officer

November 8, 2012

AgGeorgia Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of *Ag***Georgia** *Farm Credit, ACA* (Association or AgGeorgia) for the period ended September 30, 2012. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2011 Annual Report of the Association.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate term loans and long term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including poultry, cotton, timber, peanuts and livestock. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of September 30, 2012 was $1,025,104, a decrease of $40,651 as compared to $1,065,755 at December 31, 2011. Net loans outstanding at September 30, 2012 were $1,013,705 as compared to $1,052,573 at December 31, 2011. This decrease in loan volume is related to tightening of credit standards and decreased demand for loans in a tight economy. Net loans accounted for 93.46 percent of total assets at September 30, 2012, as compared to 92.70 percent of total assets at December 31, 2011.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has declined but continues to be at an acceptable level, and credit administration remains satisfactory. Nonaccrual loans decreased from $59,243 at December 31, 2011 to $51,843 at September 30, 2012.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2012, was $11,399 compared to $13,182 at December 31, 2011, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2012

Net income for the three months ended September 30, 2012 totaled $3,715 as compared to $2,894 for the same period in 2011. This increase is primarily due to a lower provision for loan losses of $979 as compared to $3,400 during the same period in 2011. The decreased provision expense was the result of several large transfers in 3rd quarter 2011 that caused an unusually high reserve that quarter.

Non-interest income for the three months ended September 30, 2012, totaled $699, as compared to $2,016 for the same period of 2011. This difference is due to an increase in losses on other property owned of $895 over the same period last year, and a decrease in patronage refunds from other Farm Credit Institutions of $453. Non-interest expense for the three months ended September 30, 2012 totaled $4,770, a decrease of $150 compared to the same period of 2011.

For the nine months ended September 30, 2012

Net income for the nine months ended September 30, 2012, totaled $6,066 as compared to $9,418 for the same period in 2011. Net interest income decreased $431 for the nine months ended September 30, 2012, as compared to the same period in 2011. This decrease is primarily related to a decline in volume due to changing underwriting standards and lower demand due to the economy. The Association recorded a loan loss provision of $7,209 for the nine months ended September 30, 2012, as compared to $7,557 for the same period in 2011. The provision is related to declining credit quality and declines in collateral values due to the current economic environment.

Non-interest income for the nine months ended September 30, 2012, totaled $2,010, as compared to $5,183 for the same period of 2011, a decrease of $3,173. An increase in losses on other property owned of $3,208 contributed to the decline in non-interest income, as did decreased patronage refunds from other Farm Credit institutions, though these were offset by a nonrecurring refund of FCSIC insurance premiums of $1,428. Non-interest expense for the nine months ended September 30, 2012, decreased $3,349 compared to the same period of 2011.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2012, was $874,295 as compared to $926,894 at December 31, 2011. See Note 4 in the Notes to the Consolidated Financial Statements for additional information on the status of compliance with covenants under the General Financing Agreement.

CAPITAL RESOURCES

Total members' equity at September 30, 2012 increased $5,626 to $196,626 from the December 31, 2011 total of $191,000. The increase is related to an increase in earnings retained in 2011.

Total capital stock and participation certificates were $3,953 on September 30, 2012, compared to $4,265 on December 31, 2011. This decrease is attributed to the retirement of stock on loans liquidated in the normal course of business being greater than the issuance of stock on new loans.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk adjusted asset base. As of September 30, 2012, the Association's total surplus ratio and core surplus ratio were 16.46 percent and 14.09 percent, respectively, and the permanent capital ratio was 16.87 percent. 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.

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.

REGULATORY MATTERS

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

On February 1, 2012 the FCA issued a letter of special supervision requiring the Association to address several concerns relative to credit quality and risk identification and mitigation. The Board of Directors has developed and approved a plan to address all of the concerns noted by FCA. The plan includes, but is not limited to, changes in underwriting standards and advance rates to mitigate credit risk and credit quality concerns, and establishing commodity concentration standards and implementing the Farmer Mac standby letter of credit program to mitigate commodity concentration risk, particularly in the poultry portfolio. Additionally, the plan implemented a requirement to secure government guarantees on all new loans for specialized operations.

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 478-987-8300 Ext. 120, writing Carrie McCall, Chief Financial Officer, AgGeorgia Farm Credit, ACA, P.O. Box 1820, Perry, GA 31069, or accessing the website, *www.aggeorgia.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

AgGeorgia Farm Credit ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2012	December 31, 2011
	(unaudited)	*(audited)*
Assets		
Cash	$ 630	$ 1,479
Loans	1,025,104	1,065,755
Less: allowance for loan losses	11,399	13,182
Net loans	1,013,705	1,052,573
Accrued interest receivable	14,452	14,443
Investments in other Farm Credit institutions	21,201	21,924
Premises and equipment, net	8,039	8,273
Other property owned	14,557	16,865
Due from AgFirst Farm Credit Bank	5,344	9,905
Other assets	6,761	10,042
Total assets	$ 1,084,689	$ 1,135,504
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 874,295	$ 926,894
Accrued interest payable	1,848	2,284
Patronage refunds payable	253	1,135
Other liabilities	11,667	14,191
Total liabilities	888,063	944,504
Commitments and contingencies		
Members' Equity		
Protected borrower stock	41	83
Capital stock and participation certificates	3,953	4,265
Retained earnings		
Allocated	86,449	86,243
Unallocated	106,245	100,462
Accumulated other comprehensive income (loss)	(62)	(53)
Total members' equity	196,626	191,000
Total liabilities and members' equity	$ 1,084,689	$ 1,135,504

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

AgGeorgia Farm Credit ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2012	2011	For the nine months ended September 30, 2012	2011
Interest Income				
Loans	$ 14,548	$ 16,642	$ 44,243	$ 49,007
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	5,780	7,443	18,327	22,036
Net interest income	8,768	9,199	25,916	26,971
Provision for loan losses	979	3,400	7,209	7,557
Net interest income after provision for loan losses	7,789	5,799	18,707	19,414
Noninterest Income				
Loan fees	190	156	906	1,070
Fees for financially related services	8	2	28	22
Patronage refunds from other Farm Credit institutions	1,771	2,224	6,002	7,253
Gains (losses) on other property owned, net	(1,306)	(411)	(6,575)	(3,367)
Gains (losses) on sales of premises and equipment, net	15	58	63	84
Insurance Fund refunds	—	—	1,428	—
Other noninterest income (loss)	21	(13)	158	121
Total noninterest income	699	2,016	2,010	5,183
Noninterest Expense				
Salaries and employee benefits	3,457	3,605	10,674	10,845
Occupancy and equipment	344	343	936	953
Insurance Fund premiums	120	162	361	471
Other operating expenses	849	810	2,676	2,909
Total noninterest expense	4,770	4,920	14,647	15,178
Income before income taxes	3,718	2,895	6,070	9,419
Provision for income taxes	3	1	4	1
Net income	$ 3,715	$ 2,894	$ 6,066	$ 9,418

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

AgGeorgia Farm Credit ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Net income	$ 3,715	$ 2,894	$ 6,066	$ 9,418
Other comprehensive income net of tax				
Employee benefit plans adjustments	–	–	(9)	(7)
Comprehensive income	$ 3,715	$ 2,894	$ 6,057	$ 9,411

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

AgGeorgia Farm Credit ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2010	$ 131	$ 4,162	$ 86,521	$ 96,546	$ (25)	$ 187,335
Comprehensive income				9,418	(7)	9,411
Protected borrower stock retired	(44)					(44)
Capital stock/participation certificates issued/(retired), net		98				98
Retained earnings retired			(3,041)			(3,041)
Patronage distribution adjustment			6	(81)		(75)
Balance at September 30, 2011	$ 87	$ 4,260	$ 83,486	$ 105,883	$ (32)	$ 193,684
Balance at December 31, 2011	$ 83	$ 4,265	$ 86,243	$ 100,462	$ (53)	$ 191,000
Comprehensive income				6,066	(9)	6,057
Protected borrower stock retired	(42)					(42)
Capital stock/participation certificates issued/(retired), net		(312)				(312)
Patronage distribution adjustment			206	(283)		(77)
Balance at September 30, 2012	$ 41	$ 3,953	$ 86,449	$ 106,245	$ (62)	$ 196,626

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

*Ag***Georgia** *Farm Credit, ACA*

Notes to the Consolidated Financial Statements

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

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

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

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the nine months ended September 30, 2012, are not necessarily indicative of the results to be expected for the year ending December 31, 2012.

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

The Association maintains an allowance for loan losses in accordance with GAAP. The Association's allowance methodology requires that 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	$ 466,848	$ 522,280
Production and intermediate-term	518,384	501,841
Agribusiness		
Loans to cooperatives	1,552	1,709
Processing and marketing	16,986	20,091
Farm-related business	12,043	9,251
Total agribusiness	30,581	31,051
Rural residential real estate	9,291	10,583
Total Loans	$ 1,025,104	$ 1,065,755

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. Participation loan balances at period end were as follows:

	September 30, 2012							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 5,393	$ 30,623	$ 2,053	$ –	$ –	$ –	$ 7,446	$ 30,623
Production and intermediate-term	11,637	47,232	–	–	19,806	–	31,443	47,232
Agribusiness								
Loans to cooperatives	1,547	–	–	–	–	–	1,547	–
Processing and marketing	3,972	–	–	–	–	–	3,972	–
Farm-related business	–	2,836	–	–	–	–	–	2,836
Total agribusiness	5,519	2,836	–	–	–	–	5,519	2,836
Rural residential real estate	–	138	–	–	–	–	–	138
Total	$ 22,549	$ 80,829	$ 2,053	$ –	$ 19,806	$ –	$ 44,408	$ 80,829

	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	$ 5,723	$ 44,324	$ 3,134	$ –	$ –	$ –	$ 8,857	$ 44,324
Production and intermediate-term	17,596	88,988	–	–	44,663	–	62,259	88,988
Agribusiness								
Loans to cooperatives	1,699	–	–	–	–	–	1,699	–
Processing and marketing	5,440	1,625	–	–	–	–	5,440	1,625
Total agribusiness	7,139	1,625	–	–	–	–	7,139	1,625
Rural residential real estate	–	269	–	–	–	–	–	269
Total	$ 30,458	$ 135,206	$ 3,134	$ –	$ 44,663	$ –	$ 78,255	$ 135,206

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 23.72 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	$ 51,348	$ 120,205	$ 295,295	$ 466,848
Production and intermediate term	175,996	183,545	158,843	518,384
Agribusiness				
Loans to cooperatives	1,546	6	–	1,552
Processing and marketing	11,547	528	4,911	16,986
Farm-related business	2,189	6,103	3,751	12,043
Total agribusiness	15,282	6,637	8,662	30,581
Rural residential real estate	571	2,366	6,354	9,291
Total Loans	$ 243,197	$ 312,753	$ 469,154	$ 1,025,104

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	85.01%	85.24%
OAEM	6.55	7.06
Substandard/doubtful/loss	8.44	7.70
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	84.30%	83.57%
OAEM	7.16	9.17
Substandard/doubtful/loss	8.54	7.26
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	0.38%	0.02%
OAEM	–	9.12
Substandard/doubtful/loss	99.62	90.86
	100.00%	100.00%
Processing and marketing:		
Acceptable	95.10%	95.44%
OAEM	–	0.27
Substandard/doubtful/loss	4.90	4.29
	100.00%	100.00%

	September 30, 2012	December 31, 2011
Farm-related business:		
Acceptable	98.03%	88.95%
OAEM	1.97	11.05
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total agribusiness:		
Acceptable	91.49%	88.31%
OAEM	0.77	3.97
Substandard/doubtful/loss	7.74	7.72
	100.00%	100.00%
Rural residential real estate:		
Acceptable	85.89%	93.20%
OAEM	10.11	4.80
Substandard/doubtful/loss	4.00	2.00
	100.00%	100.00%
Total Loans:		
Acceptable	84.85%	84.62%
OAEM	6.72	7.94
Substandard/doubtful/loss	8.43	7.44
	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	$ 4,375	$ 13,544	$ 17,919	$ 455,517	$ 473,436	$ –
Production and intermediate-term	6,427	14,784	21,211	504,695	525,906	–
Agribusiness						
Loans to cooperatives	–	1,547	1,547	5	1,552	–
Processing and marketing	–	–	–	17,156	17,156	–
Farm-related business	59	–	59	12,090	12,149	–
Total agribusiness	59	1,547	1,606	29,251	30,857	–
Rural residential real estate	432	143	575	8,782	9,357	–
Total	$ 11,293	$ 30,018	$ 41,311	$ 998,245	$ 1,039,556	$ –

	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	$ 5,719	$ 20,917	$ 26,636	$ 502,973	$ 529,609	$ –
Production and intermediate-term	6,738	11,712	18,450	490,081	508,531	–
Agribusiness						
Loans to cooperatives	–	1,553	1,553	156	1,709	–
Processing and marketing	–	–	–	20,312	20,312	–
Farm-related business	–	–	–	9,390	9,390	–
Total agribusiness	–	1,553	1,553	29,858	31,411	–
Rural residential real estate	499	129	628	10,019	10,647	–
Total	$ 12,956	$ 34,311	$ 47,267	$ 1,032,931	$ 1,080,198	$ –

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

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

	September 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 23,916	$ 32,744
Production and intermediate-term	25,284	24,732
Agribusiness		
Loans to cooperatives	1,547	1,553
Processing and marketing	840	–
Farm-related business	1	–
Total agribusiness	2,388	1,553
Rural residential real estate	255	214
Total nonaccrual loans	$ 51,843	$ 59,243
Accruing restructured loans:		
Real estate mortgage	$ 6,303	$ 4,240
Production and intermediate-term	7,278	2,407
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Farm-related business	–	–
Total agribusiness	–	–
Rural residential real estate	–	–
Total accruing restructured loans	$ 13,581	$ 6,647
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	–
Production and intermediate-term	–	–
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Farm-related business	–	–
Total agribusiness	–	–
Rural residential real estate	–	–
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 65,424	$ 65,890
Other property owned	14,557	16,865
Total nonperforming assets	$ 79,981	$ 82,755
Nonaccrual loans as a percentage of total loans	5.06%	5.56%
Nonperforming assets as a percentage of total loans and other property owned	7.69%	7.64%
Nonperforming assets as a percentage of capital	40.68%	43.33%

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 nonaccrual loans:		
Current as to principal and interest	$ 17,737	$ 17,709
Past due	34,106	41,534
Total impaired nonaccrual loans	51,843	59,243
Impaired accrual loans:		
Restructured	13,581	6,647
Total impaired accrual loans	13,581	6,647
Total impaired loans	$ 65,424	$ 65,890

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	$ 10,794	$ 11,663	$ 2,531	$ 10,192	$ 27	$ 10,325	$ 131
Production and intermediate-term	15,157	19,644	3,963	14,313	38	14,499	184
Agribusiness							
Loans to cooperatives	–	–	–	–	–	–	–
Processing and marketing	825	840	249	779	2	789	10
Farm-related business	–	–	–	–	–	–	–
Total agribusiness	825	840	249	779	2	789	10
Rural residential real estate	63	63	1	59	–	60	1
Total	$ 26,839	$ 32,210	$ 6,744	$ 25,343	$ 67	$ 25,673	$ 326
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 19,425	$ 21,986	$ –	$ 18,343	$ 49	$ 18,581	$ 236
Production and intermediate-term	17,405	18,742	–	16,434	43	16,648	211
Agribusiness							
Loans to cooperatives	1,547	1,531	–	1,460	4	1,479	19
Processing and marketing	15	–	–	15	–	15	–
Farm-related business	1	754	–	1	–	1	–
Total agribusiness	1,563	2,285	–	1,476	4	1,495	19
Rural residential real estate	192	249	–	182	1	184	2
Total	$ 38,585	$ 43,262	$ –	$ 36,435	$ 97	$ 36,908	$ 468
Total impaired loans:							
Real estate mortgage	$ 30,219	$ 33,649	$ 2,531	$ 28,535	$ 76	$ 28,906	$ 367
Production and intermediate-term	32,562	38,386	3,963	30,747	81	31,147	395
Agribusiness							
Loans to cooperatives	1,547	1,531	–	1,460	4	1,479	19
Processing and marketing	840	840	249	794	2	804	10
Farm-related business	1	754	–	1	–	1	–
Total agribusiness	2,388	3,125	249	2,255	6	2,284	29
Rural residential real estate	255	312	1	241	1	244	3
Total	$ 65,424	$ 75,472	$ 6,744	$ 61,778	$ 164	$ 62,581	$ 794

	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	$ 22,687	$ 26,827	$ 3,326	$ 20,668	$ 282
Production and intermediate-term	16,294	18,910	5,061	14,844	202
Agribusiness					
Loans to cooperatives	–	–	–	–	–
Farm-related business	–	–	–	–	–
Total agribusiness	–	–	–	–	–
Total	$ 38,981	$ 45,737	$ 8,387	$ 35,512	$ 484
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 14,297	$ 17,598	$ –	$ 13,024	$ 177
Production and intermediate-term	10,845	12,102	–	9,880	135
Agribusiness					
Loans to cooperatives	1,553	1,544	–	1,415	19
Farm-related business	–	14	–	–	–
Total agribusiness	1,553	1,558	–	1,415	19
Rural residential real estate	214	252	–	194	3
Total	$ 26,909	$ 31,510	$ –	$ 24,513	$ 334
Total impaired loans:					
Real estate mortgage	$ 36,984	$ 44,425	$ 3,326	$ 33,692	$ 459
Production and intermediate-term	27,139	31,012	5,061	24,724	337
Agribusiness					
Loans to cooperatives	1,553	1,544	–	1,415	19
Farm-related business	–	14	–	–	–
Total agribusiness	1,553	1,558	–	1,415	19
Rural residential real estate	214	252	–	194	3
Total	$ 65,890	$ 77,247	$ 8,387	$ 60,025	$ 818

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	Rural Residential Real Estate	Total
Allowance for credit losses:					
Balance at June 30, 2012	$ 3,856	$ 6,982	$ 968	$ 22	$ 11,828
Charge-offs	(328)	(369)	(715)	–	(1,412)
Recoveries	2	2	–	–	4
Provision for loan losses	652	205	122	–	979
Balance at September 30, 2012	$ 4,182	$ 6,820	$ 375	$ 22	$ 11,399
Balance at December 31, 2011	$ 4,629	$ 8,208	$ 324	$ 21	$ 13,182
Charge-offs	(5,562)	(2,913)	(715)	–	(9,190)
Recoveries	80	118	–	–	198
Provision for loan losses	5,035	1,407	766	1	7,209
Balance at September 30, 2012	$ 4,182	$ 6,820	$ 375	$ 22	$ 11,399
Balance at June 30, 2011	$ 4,146	$ 5,882	$ 894	$ 30	$ 10,952
Charge-offs	(1,636)	(953)	–	–	(2,589)
Recoveries	19	9	–	5	33
Provision for loan losses	2,127	1,258	27	(12)	3,400
Balance at September 30, 2011	$ 4,656	$ 6,196	$ 921	$ 23	$ 11,796
Balance at December 31, 2010	$ 5,370	$ 5,927	$ 618	$ 28	$ 11,943
Charge-offs	(3,809)	(3,506)	(492)	(5)	(7,812)
Recoveries	32	71	–	5	108
Provision for loan losses	3,063	3,704	795	(5)	7,557
Balance at September 30, 2011	$ 4,656	$ 6,196	$ 921	$ 23	$ 11,796
Loans individually evaluated for impairment	$ 2,531	$ 3,963	$ 249	$ 1	$ 6,744
Loans collectively evaluated for impairment	1,651	2,857	126	21	4,655
Balance at September 30, 2012	$ 4,182	$ 6,820	$ 375	$ 22	$ 11,399
Loans individually evaluated for impairment	$ 3,326	$ 5,061	$ –	$ –	$ 8,387
Loans collectively evaluated for impairment	1,303	3,147	324	21	4,795
Balance at December 31, 2011	$ 4,629	$ 8,208	$ 324	$ 21	$ 13,182
Recorded investment in loans outstanding:					
Loans individually evaluated for impairment	$ 30,219	$ 32,562	$ 2,388	$ 255	$ 65,424
Loans collectively evaluated for impairment	443,217	493,344	28,469	9,102	974,132
Ending balance at September 30, 2012	$ 473,436	$ 525,906	$ 30,857	$ 9,357	$ 1,039,556
Loans individually evaluated for impairment	$ 32,744	$ 24,732	$ 1,553	$ 214	$ 59,243
Loans collectively evaluated for impairment	496,865	483,799	29,858	10,433	1,020,955
Ending balance at December 31, 2011	$ 529,609	$ 508,531	$ 31,411	$ 10,647	$ 1,080,198

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 periods presented, related to TDRs. The table does not include purchased credit impaired loans.

	Three months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 2,302	$ –	$ 2,302
Production and intermediate-term	–	2,110	–	2,110
Total	$ –	$ 4,412	$ –	$ 4,412

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	$ –	$ 2,282	$ –	$ 2,282	$ 60	$ –
Production and intermediate-term	–	2,101	–	2,101	(89)	–
Total	$ –	$ 4,383	$ –	$ 4,383	$ (29)	$ –

Nine months ended September 30, 2012				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 6,970	$ –	$ 6,970
Production and intermediate-term	–	9,934	–	9,934
Rural residential real estate	–	34	–	34
Total	$ –	$ 16,938	$ –	$ 16,938

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	$ –	$ 6,977	$ –	$ 6,977	$ 330	$ –
Production and intermediate-term	–	9,944	–	9,944	542	(1)
Rural residential real estate	–	38	–	38	–	–
Total	$ –	$ 16,959	$ –	$ 16,959	$ 872	$ (1)

Three months ended September 30, 2011				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 9,006	$ –	$ 9,006
Production and intermediate-term	–	1,262	–	1,262
Total	$ –	$ 10,268	$ –	$ 10,268

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	$ –	$ 9,010	$ –	$ 9,010	$ 1,555	$ (853)
Production and intermediate-term	–	1,256	–	1,256	6	–
Total	$ –	$ 10,266	$ –	$ 10,266	$ 1,561	$ (853)

Nine months ended September 30, 2011				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 13,303	$ –	$ 13,303
Production and intermediate-term	20	1,905	–	1,925
Total	$ 20	$ 15,208	$ –	$ 15,228

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	$ –	$ 13,294	$ –	$ 13,294	$ 1,555	$ (853)
Production and intermediate-term	20	1,887	–	1,907	33	–
Total	$ 20	$ 15,181	$ –	$ 15,201	$ 1,588	$ (853)

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

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

	Three months ended September 30, 2012	Nine months ended September 30, 2012
Defaulted troubled debt restructurings:		
Real estate mortgage	$ –	$ 290
Production and intermediate-term	–	380
Rural residential real estate	–	25
Total	$ –	$ 695

TDRs outstanding at period end totaled $24,644, of which $11,063 were in nonaccrual status.

NOTE 3 – 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	$ 3,279	$ 3,271
401(k)	205	208
Other postretirement benefits	401	522
Total	$ 3,885	$ 4,001

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	$ 36	$ 3,389	$ 3,425
Other postretirement benefits	402	102	504
Total	$ 438	$ 3,491	$ 3,929

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

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

NOTE 4 – 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 January 31, 2013.

NOTE 5 – 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 5.96 percent of the issued stock of the Bank as of September 30, 2012 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.8 billion and shareholders' equity totaled $2.5 billion. The Bank's earnings were $358 million for the first nine months of 2012. In addition, the Association has an investment of $914 related to other Farm Credit institutions.

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at September 30, 2012 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis at September 30, 2012.

The carrying value of accrued interest approximates its fair value.

Level 3

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

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

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Level 3 assets include impaired loans 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.

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	$ 10
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income	–
Purchases	–
Sales	–
Issuances	–
Settlements	(5)
Transfers in and/or out of level 3	–
Balance at September 30, 2012	$ 5

	Standby Letters Of Credit
Balance at January 1, 2011	$ 67
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income	–
Purchases	–
Sales	–
Issuances	–
Settlements	(55)
Transfers in and/or out of level 3	–
Balance at September 30, 2011	$ 12

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	$	74,485	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
Accrued interest	Carrying value	Coupon interest rates
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment rates
		Probability of default
		Loss severity
		Annualized volatility

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

	September 30, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 274	$ 274	$ –	$ –	$ 274	
Recurring Assets	$ 274	$ 274	$ –	$ –	$ 274	
Liabilities:						
Standby letters of credit	$ 5	$ –	$ –	$ 5	$ 5	
Recurring Liabilities	$ 5	$ –	$ –	$ 5	$ 5	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 58,680	$ –	$ –	$ 58,680	$ 58,680	$ (7,350)
Other property owned	14,557	–	–	15,805	15,805	(6,089)
Nonrecurring Assets	$ 73,237	$ –	$ –	$ 74,485	$ 74,485	$ (13,439)
Other Financial Instruments						
Assets:						
Cash	$ 630	$ 630	$ –	$ –	$ 630	
Loans	955,025	–	–	962,308	962,308	
Accrued interest receivable	14,452	–	14,452	–	14,452	
Other Assets	$ 970,107	$ 630	$ 14,452	$ 962,308	$ 977,390	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 874,295	$ –	$ –	$ 886,323	$ 886,323	
Accrued interest payable	1,848	–	1,848	–	1,848	
Other Liabilities	$ 876,143	$ –	$ 1,848	$ 886,323	$ 888,171	

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

	December 31, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	$ 243	$ –	$ –	$ 243
Total Assets	$ 243	$ –	$ –	$ 243
Liabilities:				
Standby letters of credit	$ –	$ –	$ 10	$ 10
Total Liabilities	$ –	$ –	$ 10	$ 10

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	$ –	$ –	$ 30,595	$ 30,595	$ (14,243)
Other Property Owned	$ –	$ –	$ 18,650	$ 18,650	$ (4,839)

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	$ 1,479	$ 1,479
Loans, net of allowance	$ 1,052,573	$ 1,073,658
Accrued interest receivable	$ 14,443	$ 14,443
Assets held in trust funds	$ 243	$ 243
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 929,178	$ 944,815

NOTE 6 – ACCUMULATED OTHER COMPREHENSIVE INCOME

Cumulative balances:

	Employee Benefit Plans
Balance at December 31, 2011	$ (53)
Other comprehensive income	(9)
Balance at September 30, 2012	$ (62)
Balance at December 31, 2010	$ (25)
Other comprehensive income	(7)
Balance at September 30, 2011	$ (32)

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Other Comprehensive Income and Reclassification Amounts:				
Amounts reclassified to net periodic pension costs	$ –	$ –	$ –	$ –
Net gain (loss) during period	–	–	(9)	(7)
Defined benefit post retirement plans, net	$ –	$ –	$ (9)	$ (7)

NOTE 7 – 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.