

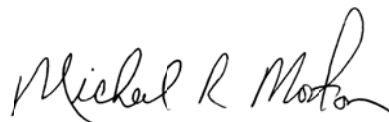
SECOND QUARTER 2012

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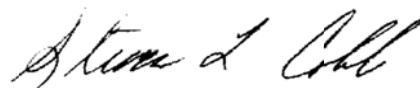
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CERTIFICATION

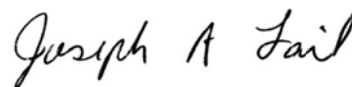
The undersigned certify that we have reviewed the June 30, 2012 quarterly report of Carolina Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Michael R. Morton
Chief Executive Officer



Steven L. Cobb
Chief Information and Technology Officer



Joseph A. Lail
Chairman of the Board

August 8, 2012

Carolina 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.

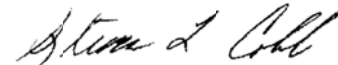
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions 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 June 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 June 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 June 30, 2012.



Michael Morton
Chief Executive Officer



Steven L. Cobb
Chief Information and Technology Officer

August 8, 2012

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 Carolina Farm Credit, ACA (Association) for the period ended June 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 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 in our region, including part-time farm, poultry, and rural home loans. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the dependency on a single agricultural commodity.

The gross loan volume of the Association as of June 30, 2012, was \$1,152,818 a decrease of \$18,686 as compared to \$1,171,504 at December 31, 2011. Net loans outstanding at June 30, 2012, were \$1,146,575 as compared to \$1,166,458 at December 31, 2011. Net loans accounted for 90.05 percent of total assets at June 30, 2012, as compared to 88.75 percent of total assets at December 31, 2011. The decrease in loan volume during the reporting period is a result of principal payments and payoffs outpacing new loan volume.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory.

Nonaccrual loans increased from \$45,805 at December 31, 2011, to \$52,060 at June 30, 2012. This increase is primarily the result of transfers of loan volume to nonaccrual being more than regular payments made on nonaccrual loans, along with nonaccrual loans liquidated or reinstated to accrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2012, was \$6,243 compared to \$5,046 at December 31, 2011, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2012

Net income for the three months ended June 30, 2012, totaled \$8,535, as compared to \$5,204 for the same period in 2011. Net interest income decreased \$67 for the three months ended June 30, 2012, as compared to the same period in 2011.

At June 30, 2012, total interest income decreased \$1,284 compared to June 30, 2011. Nonaccrual income was \$119 for the three months ended June 30, 2012, as compared to \$137 for the same period in 2011. Interest expense decreased \$1,217 for the three months ended June 30, 2012, as compared to the comparable period of 2011.

The Association recorded a provision for loan losses of \$1,090 for the three months ended June 30, 2012 as compared to a provision of \$3,106 for the same period of 2011.

Noninterest income for the three months ended June 30, 2012, totaled \$7,413 as compared to \$5,769 for the same period of 2011, an increase of \$1,644. This rise in earnings is attributed to an increase of \$5 in fees for financially related services, \$314 in equity in earnings of other Farm Credit institutions, \$196 in gains (losses) on sale of rural home loans, \$10 gains (losses) on sales of premises and equipment, \$1,334 in insurance fund refunds, and \$135 in other non-interest income (expense) when compared to the same period in 2011. These increases were offset by decreases of \$70 in loan fees and \$280 in gains (losses) on other property owned when compared for the same period of 2011.

Noninterest expense for the three months ended June 30, 2012, increased \$262 compared to the same period of 2011. This rise in noninterest expense is attributed to an increase of \$216 in salaries and employee benefits, \$28 in

occupancy and equipment, and \$48 in other operating expenses when compared to the same period in 2011. These increases were offset by a decrease of \$30 in the insurance fund premium when compared for the same period of 2011

The Association recorded a provision for income taxes of \$3 for the three months ended June 30, 2012 as compared a provision of \$3 for the same period of 2011.

For the six months ended June 30, 2012

Net income for the six months ended June 30, 2012, totaled \$14,341, as compared to \$10,543 for the same period in 2011. This increase of \$3,798, or 36.02 percent, is primarily attributed to significant decrease to the provision for loan loss.

At June 30, 2012, total interest income decreased \$2,362 compared to June 30, 2011. Nonaccrual income was \$261 for the six months ended June 30, 2012, as compared to \$380 for the same period in 2011. Interest expense decreased \$2,307 for the six months ended June 30, 2012, as compared to the same period in 2011. Both interest income and interest expense have decreased due to the lower interest rate environment.

The Association recorded a provision for loan losses of \$1,892 for the six months ended June 30, 2012 as compared to a provision of \$5,060 for the same period of 2011. The decrease in provision for loan losses reflects a decreased need to charge loans down to fair value during the current reporting period.

Noninterest income for the six months ended June 30, 2012, totaled \$12,130, as compared to \$11,040 for the same period of 2011, an increase of \$1,090. The rise in earnings is attributed to an increase of \$76 in fees for financially related services, \$429 in the gains (losses) on sale of rural home loans, \$22 gains (losses) on sales of premises and equipment, \$1,334 in insurance fund refunds, and \$57 in other noninterest income (expenses) when compared to the same period in 2011. These increases were offset by decreases of \$256 in loan fees, \$32 in equity in earnings of other Farm Credit institutions, and \$540 in the gains (losses) on other property owned when compared to the same period in 2011.

During the second quarter of 2012, the Association recorded \$1,334 of insurance premium refunds from the FCSIC, which insures the System's debt obligations. The amount is reflected in insurance fund refunds on the Consolidated Statements of Income. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest expense for the six months ended June 30, 2012, increased \$401 compared to the same period of 2011. This rise in noninterest expense is attributed to an increase of \$300 in salaries and employee benefits, \$53 in occupancy and equipment, and \$108 in other operating expenses when compared to the same period in 2011. The increases were offset by a decrease of \$60 in the insurance fund premium when compared for the same period of 2011.

The Association recorded a provision for income taxes of \$7 for the six months ended June 30, 2012 as compared to a provision of \$3 for the same period of 2011.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst 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 is 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 June 30, 2012, was \$991,309 as compared to \$1,040,877 at December 31, 2011. The decrease during the period is primarily attributable to the decline in loan volume.

The Association has no lines of credit outstanding with third parties as of June 30, 2012.

CAPITAL RESOURCES

Total members' equity at June 30, 2012, increased to \$258,991 from the December 31, 2011, total of \$244,588. The change in capital is attributed to net earnings for the six months ending June 30, 2012.

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 June 30, 2012, the Association's total surplus ratio and core surplus ratio were 18.71 percent and 15.61 percent, respectively, and the permanent capital ratio was 19.41 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.

REGULATORY MATTERS

For the six months ended June 30, 2012, the FCA took no enforcement action against the Association.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-800-521-9952, or writing Michael R. Morton, CEO, Carolina Farm Credit, ACA, P.O. Box 1827, Statesville NC 28687-1827, or accessing the website, www.carolinafarmcredit.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.

Carolina Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2012 <i>(unaudited)</i>	December 31, 2011 <i>(audited)</i>
Assets		
Cash	\$ 5,304	\$ 2,757
Investment securities:		
Held to maturity (fair value of \$3,145 and \$2,717 respectively)	2,864	2,433
Loans	1,152,818	1,171,504
Less: allowance for loan losses	6,243	5,046
Net loans	1,146,575	1,166,458
Other investments	23,091	34,624
Accrued interest receivable	12,828	13,118
Investments in other Farm Credit institutions	35,961	36,236
Premises and equipment, net	15,190	15,128
Other property owned	6,275	6,825
Due from AgFirst Farm Credit Bank	7,743	17,783
Other assets	17,369	18,889
Total assets	\$ 1,273,200	\$ 1,314,251
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 991,309	\$ 1,040,877
Accrued interest payable	2,066	2,363
Patronage refunds payable	424	5,135
Other liabilities	20,410	21,288
Total liabilities	1,014,209	1,069,663
Commitments and contingencies		
Members' Equity		
Protected borrower stock	51	67
Capital stock and participation certificates	7,793	7,833
Retained earnings		
Allocated	138,151	137,891
Unallocated	113,936	99,863
Accumulated other comprehensive income (loss)	(940)	(1,066)
Total members' equity	258,991	244,588
Total liabilities and members' equity	\$ 1,273,200	\$ 1,314,251

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

Carolina Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Interest Income				
Investment securities	\$ 41	\$ 31	\$ 78	\$ 62
Loans	15,732	16,884	31,735	33,835
Other investments	285	427	594	872
Total interest income	16,058	17,342	32,407	34,769
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,288	7,510	12,737	15,051
Other	5	—	7	—
Total interest expense	6,293	7,510	12,744	15,051
Net interest income	9,765	9,832	19,663	19,718
Provision for loan losses	1,090	3,106	1,892	5,060
Net interest income after provision for loan losses	8,675	6,726	17,771	14,658
Noninterest Income				
Loan fees	577	647	1,154	1,410
Fees for financially related services	50	45	204	128
Patronage refunds from other Farm Credit institutions	5,170	4,856	8,817	8,849
Gains (losses) on other property owned, net	(515)	(235)	(944)	(404)
Gains (losses) on sales of rural home loans, net	572	376	1,193	764
Gains (losses) on sales of premises and equipment, net	51	41	114	92
Insurance Fund refunds	1,334	—	1,334	—
Other noninterest income	174	39	258	201
Total noninterest income	7,413	5,769	12,130	11,040
Noninterest Expense				
Salaries and employee benefits	5,400	5,184	11,134	10,834
Occupancy and equipment	691	663	1,403	1,350
Insurance Fund premiums	122	152	242	302
Other operating expenses	1,337	1,289	2,774	2,666
Total noninterest expense	7,550	7,288	15,553	15,152
Income before income taxes	8,538	5,207	14,348	10,546
Provision for income taxes	3	3	7	3
Net income	\$ 8,535	\$ 5,204	\$ 14,341	\$ 10,543

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

Carolina Farm Credit, ACA
**Consolidated Statements of
 Comprehensive Income**

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Net income	\$ 8,535	\$ 5,204	\$ 14,341	\$ 10,543
Other comprehensive income net of tax				
Employee benefit plans adjustments	83	57	126	91
Comprehensive income	\$ 8,618	\$ 5,261	\$ 14,467	\$ 10,634

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

Carolina Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2010	\$ 119	\$ 7,893	\$ 126,490	\$ 104,335	\$ (1,000)	\$ 237,837
Comprehensive income				10,543	91	10,634
Protected borrower stock retired	(46)					(46)
Capital stock/participation certificates issued/(retired), net		(16)				(16)
Patronage distribution adjustment			(787)	285		(502)
Balance at June 30, 2011	\$ 73	\$ 7,877	\$ 125,703	\$ 115,163	\$ (909)	\$ 247,907
Balance at December 31, 2011	\$ 67	\$ 7,833	\$ 137,891	\$ 99,863	\$ (1,066)	\$ 244,588
Comprehensive income				14,341	126	14,467
Protected borrower stock retired	(16)					(16)
Capital stock/participation certificates issued/(retired), net		(40)				(40)
Patronage distribution adjustment			260	(268)		(8)
Balance at June 30, 2012	\$ 51	\$ 7,793	\$ 138,151	\$ 113,936	\$ (940)	\$ 258,991

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 Carolina 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 second 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 six months ended June 30, 2012, are not necessarily indicative of the results to be expected for the year ending December 31, 2012.

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 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 additional disclosures.

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

In January 2011, the FASB issued ASU 2011-01, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This amendment temporarily delayed the effective date of the disclosures about TDRs required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about TDRs coincides with the guidance for determining what constitutes a TDR as described above. The

adoption of this guidance had no material impact on the Association's financial condition and results of operations but resulted in significant additional disclosures.

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

NOTE 2 – INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held-to-maturity at June 30, 2012 and December 31, 2011 follows.

	June 30, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	\$ 2,864	\$ 305	\$ (24)	\$ 3,145	5.42%

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	\$ 2,433	\$ 309	\$ (25)	\$ 2,717	5.61%

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

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	- %
After one year through five years	-	-	-
After five years through ten years	-	-	-
After ten years	2,864	3,145	5.42
Total	\$ 2,864	\$ 3,145	5.42 %

The Association's mission-related investments consist of private placement securities purchased under the Rural America Bond Program approved by the FCA.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at June 30, 2012 and December 31, 2011.

	June 30, 2012			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related investments	\$ 679	\$ (24)	\$ -	\$ -

	December 31, 2011			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related investments	\$ 826	\$ (25)	\$ -	\$ -

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4)

payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes.

Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment as the unrealized losses resulted primarily from non-credit related factors. The Association has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. The Association does not intend to sell these investments and it is not more likely than not that the Association would be required to sell these investments before recovering its costs. All securities continue to perform.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	June 30, 2012	December 31, 2011
Real estate mortgage	\$ 513,905	\$ 467,920
Production and intermediate-term	531,711	582,358
Agribusiness		
Loans to cooperatives	4,519	7,467
Processing and marketing	26,863	36,224
Farm-related business	8,610	8,461
Total agribusiness	39,992	52,152
Communication	7,566	5,867
Energy	1,492	1,685
Water and waste disposal	21	22
Rural residential real estate	58,131	61,500
Total Loans	\$ 1,152,818	\$ 1,171,504

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

	June 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	\$ 8,820	\$ 167,055	\$ -	\$ -	\$ 866	\$ -	\$ 9,686	\$ 167,055
Production and intermediate-term	25,780	103,450	2,194	-	23	-	27,997	103,450
Agribusiness								
Loans to cooperatives	4,559	-	19	-	-	-	4,578	-
Processing and marketing	25,039	1,460	331	-	-	-	25,370	1,460
Farm-related business	5,179	762	152	-	-	-	5,331	762
Total agribusiness	34,777	2,222	502	-	-	-	35,279	2,222
Communication	7,587	-	-	-	-	-	7,587	-
Energy	1,525	-	-	-	-	-	1,525	-
Rural residential real estate	-	1,414	-	-	-	-	-	1,414
Total	\$ 78,489	\$ 274,141	\$ 2,696	\$ -	\$ 889	\$ -	\$ 82,074	\$ 274,141

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	\$ 12,391	\$ 152,825	\$ -	\$ -	\$ 923	\$ -	\$ 13,314	\$ 152,825
Production and intermediate-term	31,308	161,803	1,971	-	29	-	33,308	161,803
Agribusiness								
Loans to cooperatives	7,494	-	21	-	-	-	7,515	-
Processing and marketing	32,290	1,855	469	-	-	-	32,759	1,855
Farm-related business	4,873	956	218	-	-	-	5,091	956
Total agribusiness	44,657	2,811	708	-	-	-	45,365	2,811
Communication	5,899	-	-	-	-	-	5,899	-
Energy	1,729	-	-	-	-	-	1,729	-
Rural residential real estate	-	2,040	-	-	-	-	-	2,040
Total	\$ 95,984	\$ 319,479	\$ 2,679	\$ -	\$ 952	\$ -	\$ 99,615	\$ 319,479

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at June 30, 2012 and indicates that approximately 24.54 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	\$ 64,381	\$ 110,466	\$ 339,058	\$ 513,905
Production and intermediate-term	175,884	185,212	170,615	531,711
Agribusiness				
Loans to cooperatives	4,494	1	24	4,519
Processing and marketing	21,731	3,025	2,107	26,863
Farm-related business	3,723	3,795	1,092	8,610
Total agribusiness	29,948	6,821	3,223	39,992
Communication	7,566	-	-	7,566
Energy	1,492	-	-	1,492
Water and waste disposal	21	-	-	21
Rural residential real estate	3,637	12,040	42,454	58,131
Total Loans	\$ 282,929	\$ 314,539	\$ 555,350	\$ 1,152,818

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

	June 30, 2012	December 31, 2011		June 30, 2012	December 31, 2011
Real estate mortgage:			Total agribusiness:		
Acceptable	88.36%	86.22%	Acceptable	86.54%	85.88%
OAEM	3.76	3.92	OAEM	2.86	4.32
Substandard/doubtful/loss	7.88	9.86	Substandard/doubtful/loss	10.60	9.80
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Communication:		
Acceptable	86.57%	83.63%	Acceptable	100.00%	100.00%
OAEM	5.03	8.98	OAEM	-	-
Substandard/doubtful/loss	8.40	7.39	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Agribusiness:			Energy and water/waste disposal:		
Loans to cooperatives:			Acceptable	100.00%	100.00%
Acceptable	100.00%	87.42%	OAEM	-	-
OAEM	-	12.58	Substandard/doubtful/loss	-	-
Substandard/doubtful/loss	-	-		100.00%	100.00%
	100.00%	100.00%			
Processing and marketing:			Rural residential real estate:		
Acceptable	80.05%	82.32%	Acceptable	94.12%	95.30%
OAEM	4.26	3.64	OAEM	2.62	1.59
Substandard/doubtful/loss	15.69	14.04	Substandard/doubtful/loss	3.26	3.11
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			Total Loans:		
Acceptable	99.73%	99.73%	Acceptable	87.85%	85.47%
OAEM	-	-	OAEM	4.23	6.31
Substandard/doubtful/loss	0.27	0.27	Substandard/doubtful/loss	7.92	8.22
	100.00%	100.00%		100.00%	100.00%

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

June 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	\$ 4,338	\$ 10,155	\$ 14,493	\$ 505,841	\$ 520,334	\$ -
Production and intermediate-term Agribusiness	4,788	21,336	26,124	511,465	537,589	-
Loans to cooperatives	-	-	-	4,529	4,529	-
Processing and marketing	-	-	-	26,984	26,984	-
Farm-related business	90	-	90	8,553	8,643	-
Total agribusiness	90	-	90	40,066	40,156	-
Communication	-	-	-	7,569	7,569	-
Energy and water/waste disposal	-	-	-	1,514	1,514	-
Rural residential real estate	1,140	560	1,700	56,754	58,454	-
Total	<u>\$ 10,356</u>	<u>\$ 32,051</u>	<u>\$ 42,407</u>	<u>\$ 1,123,209</u>	<u>\$ 1,165,616</u>	<u>\$ -</u>

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	\$ 26,832	\$ 6,869	\$ 33,701	\$ 440,679	\$ 474,380	\$ -
Production and intermediate-term Agribusiness	5,294	9,764	15,058	573,515	588,573	-
Loans to cooperatives	-	-	-	7,482	7,482	-
Processing and marketing	-	-	-	36,345	36,345	-
Farm-related business	-	1,362	1,362	7,123	8,485	-
Total agribusiness	-	1,362	1,362	50,950	52,312	-
Communication	-	-	-	5,869	5,869	-
Energy and water/waste disposal	-	-	-	1,710	1,710	-
Rural residential real estate	1,437	1,085	2,522	59,228	61,750	-
Total	<u>\$ 33,563</u>	<u>\$ 19,080</u>	<u>\$ 52,643</u>	<u>\$ 1,131,951</u>	<u>\$ 1,184,594</u>	<u>\$ -</u>

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

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

	June 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	\$ 17,922	\$ 15,441
Production and intermediate-term	31,863	25,239
Agribusiness		
Loans to cooperatives	-	-
Processing and marketing	364	2,348
Farm-related business	699	1,385
Total agribusiness	1,063	3,733
Rural residential real estate	1,212	1,392
Total nonaccrual loans	<u>\$ 52,060</u>	<u>\$ 45,805</u>
Accruing restructured loans:		
Real estate mortgage	\$ 72	72
Production and intermediate-term	364	369
Agribusiness		
Loans to cooperatives	-	-
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	99	100
Total accruing restructured loans	<u>\$ 535</u>	<u>\$ 541</u>
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	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	\$ 52,595	\$ 46,346
Other property owned	6,275	6,825
Total nonperforming assets	<u>\$ 58,870</u>	<u>\$ 53,171</u>
Nonaccrual loans as a percentage of total loans	4.52%	3.91%
Nonperforming assets as a percentage of total loans and other property owned	5.08%	4.51%
Nonperforming assets as a percentage of capital	<u>22.73%</u>	<u>21.74%</u>

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

	June 30, 2012	December 31, 2011
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 14,701	\$ 20,404
Past due	37,359	25,401
Total impaired nonaccrual loans	<u>52,060</u>	<u>45,805</u>
Impaired accrual loans:		
Restructured	535	541
90 days or more past due	-	-
Total impaired accrual loans	<u>535</u>	<u>541</u>
Total impaired loans	<u>\$ 52,595</u>	<u>\$ 46,346</u>

The following tables present additional information concerning impaired loans and related allowance by loan type at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	June 30, 2012			Quarter Ended June 30, 2012		Six Months Ended June 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	\$ 6,345	\$ 6,980	\$ 518	\$ 5,856	\$ 15	\$ 5,689	\$ 32
Production and intermediate-term Agribusiness	19,290	19,910	3,214	17,805	44	17,296	97
Processing and marketing Farm-related business	-	-	-	-	-	-	-
Total agribusiness	-	-	-	-	-	-	-
Rural residential real estate	701	743	219	647	2	629	3
Total	\$ 26,336	\$ 27,633	\$ 3,951	\$ 24,308	\$ 61	\$ 23,614	\$ 132
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 11,649	\$ 12,448	\$ -	\$ 10,753	\$ 27	\$ 10,445	\$ 58
Production and intermediate-term Agribusiness	12,937	16,158	-	11,940	30	11,599	65
Processing and marketing Farm-related business	364	3,909	-	336	1	327	2
Total agribusiness	699	710	-	645	1	626	3
Rural residential real estate	1,063	4,619	-	981	2	953	5
Total	610	755	-	563	1	547	4
Total	\$ 26,259	\$ 33,980	\$ -	\$ 24,237	\$ 60	\$ 23,544	\$ 132
Total impaired loans:							
Real estate mortgage	\$ 17,994	\$ 19,428	\$ 518	\$ 16,609	\$ 42	\$ 16,134	\$ 90
Production and intermediate-term Agribusiness	32,227	36,068	3,214	29,745	74	28,895	162
Processing and marketing Farm-related business	364	3,909	-	336	1	327	2
Total agribusiness	699	710	-	645	1	626	3
Rural residential real estate	1,063	4,619	-	981	2	953	5
Total	1,311	1,498	219	1,210	3	1,176	7
Total	\$ 52,595	\$ 61,613	\$ 3,951	\$ 48,545	\$ 121	\$ 47,158	\$ 264

	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	\$ 4,629	\$ 4,791	\$ 493	\$ 4,650	\$ 103
Production and intermediate-term Agribusiness	7,509	7,620	2,294	7,543	167
Processing and marketing Farm-related business	-	-	-	-	-
Total agribusiness	-	-	-	-	-
Rural residential real estate	650	662	225	653	15
Total	\$ 12,788	\$ 13,073	\$ 3,012	\$ 12,846	\$ 285
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 10,884	\$ 11,953	\$ -	\$ 10,934	\$ 242
Production and intermediate-term Agribusiness	18,099	21,483	-	18,182	403
Processing and marketing Farm-related business	2,348	5,778	-	2,359	52
Total agribusiness	1,385	1,747	-	1,391	31
Rural residential real estate	3,733	7,525	-	3,750	83
Total	842	971	-	846	18
Total	\$ 33,558	\$ 41,932	\$ -	\$ 33,712	\$ 746
Total impaired loans:					
Real estate mortgage	\$ 15,513	\$ 16,744	\$ 493	\$ 15,584	\$ 345
Production and intermediate-term Agribusiness	25,608	29,103	2,294	25,725	570
Processing and marketing Farm-related business	2,348	5,778	-	2,359	52
Total agribusiness	1,385	1,747	-	1,391	31
Rural residential real estate	3,733	7,525	-	3,750	83
Total	1,492	1,633	225	1,499	33
Total	\$ 46,346	\$ 55,005	\$ 3,012	\$ 46,558	\$ 1,031

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

There were no commitments to lend additional funds to debtors whose loans were classified as impaired at June 30, 2012.

A summary of changes in the allowance for loan losses and recorded investment in loans at period end 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 March 31, 2012	\$ 936	\$ 4,038	\$ 519	\$ 3	\$ 2	\$ 233	\$ 5,731
Charge-offs	(132)	(427)	(57)	-	-	(41)	(657)
Recoveries	13	23	42	-	-	1	79
Provision for loan losses	123	878	1	7	2	79	1,090
Balance at June 30, 2012	\$ 940	\$ 4,512	\$ 505	\$ 10	\$ 4	\$ 272	\$ 6,243
Balance at December 31, 2011	\$ 724	\$ 3,449	\$ 598	\$ 6	\$ 2	\$ 267	\$ 5,046
Charge-offs	(338)	(621)	211	-	-	(76)	(824)
Recoveries	37	45	46	-	-	1	129
Provision for loan losses	517	1,639	(350)	4	2	80	1,892
Balance at June 30, 2012	\$ 940	\$ 4,512	\$ 505	\$ 10	\$ 4	\$ 272	\$ 6,243
Balance at March 31, 2011	\$ 869	\$ 7,605	\$ 3,440	\$ 2	\$ 1	\$ 153	\$ 12,070
Charge-offs	(620)	(5,973)	(4,619)	-	-	1	(11,211)
Recoveries	70	6	4	-	-	-	80
Provision for loan losses	310	800	1,878	1	-	117	3,106
Balance at June 30, 2011	\$ 629	\$ 2,438	\$ 703	\$ 3	\$ 1	\$ 271	\$ 4,045
Balance at December 31, 2010	\$ 806	\$ 8,173	\$ 1,252	\$ 2	\$ 1	\$ 57	\$ 10,291
Charge-offs	(654)	(6,110)	(4,623)	-	-	(18)	(11,405)
Recoveries	70	23	6	-	-	-	99
Provision for loan losses	407	352	4,068	1	-	232	5,060
Balance at June 30, 2011	\$ 629	\$ 2,438	\$ 703	\$ 3	\$ 1	\$ 271	\$ 4,045
Loans individually evaluated for impairment	\$ 518	\$ 3,214	\$ -	\$ -	\$ -	\$ 219	\$ 3,951
Loans collectively evaluated for impairment	422	1,298	505	10	4	53	2,292
Balance at June 30, 2012	\$ 940	\$ 4,512	\$ 505	\$ 10	\$ 4	\$ 272	\$ 6,243
Loans individually evaluated for impairment	\$ 493	\$ 2,294	\$ -	\$ -	\$ -	\$ 225	\$ 3,012
Loans collectively evaluated for impairment	231	1,155	598	6	2	42	2,034
Balance at December 31, 2011	\$ 724	\$ 3,449	\$ 598	\$ 6	\$ 2	\$ 267	\$ 5,046
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	\$ 17,994	\$ 32,227	\$ 1,063	\$ -	\$ -	\$ 1,311	\$ 52,595
Loans collectively evaluated for impairment	502,340	505,362	39,093	7,569	1,514	57,143	1,113,021
Ending balance at June 30, 2012	\$ 520,334	\$ 537,589	\$ 40,156	\$ 7,569	\$ 1,514	\$ 58,454	\$ 1,165,616
Loans individually evaluated for impairment	\$ 15,441	\$ 25,239	\$ 3,733	\$ -	\$ -	\$ 1,392	\$ 45,805
Loans collectively evaluated for impairment	458,939	563,335	48,579	5,868	1,710	60,358	1,138,789
Ending balance at December 31, 2011	\$ 474,380	\$ 588,574	\$ 52,312	\$ 5,868	\$ 1,710	\$ 61,750	\$ 1,184,594

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 June 30, 2012			
	Pre-modification Outstanding			Recorded Investment
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	\$ -	\$ 763	\$ -	\$ 763
Production and intermediate-term	-	1,221	-	1,221
Agribusiness				
Farm-related business	694	-	-	694
Total	\$ 694	\$ 1,984	\$ -	\$ 2,678

Three months ended June 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	\$ -	\$ 763	\$ -	\$ 763	\$ -	\$ -
Production and intermediate-term Agribusiness	-	1,220	-	1,220	(11)	-
Farm-related business	692	-	-	692	(269)	-
Rural residential real estate	-	-	-	-	-	-
Total	\$ 692	\$ 1,983	\$ -	\$ 2,675	\$ (280)	\$ -

Six months ended June 30, 2012

	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	\$ -	\$ 4,270	\$ -	\$ 4,270
Production and intermediate-term Agribusiness	-	3,387	-	3,387
Farm-related business	694	-	-	694
Rural residential real estate	-	-	78	78
Total	\$ 694	\$ 7,657	\$ 78	\$ 8,429

Six months ended June 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	\$ -	\$ 4,280	\$ -	\$ 4,280	\$ 25	\$ -
Production and intermediate-term Agribusiness	-	3,334	-	3,334	41	(1)
Farm-related business	692	-	-	692	(269)	-
Rural residential real estate	-	-	78	78	41	-
Total	\$ 692	\$ 7,614	\$ 78	\$ 8,384	\$ (162)	\$ (1)

Three months ended June 30, 2011

	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	\$ -	\$ 172	\$ -	\$ 172
Production and intermediate-term	3	13,549	-	13,552
Total	\$ 3	\$ 13,721	\$ -	\$ 13,724

Three months ended June 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	\$ -	\$ 172	\$ -	\$ 172	\$ (3)	\$ -
Production and intermediate-term	3	8,009	-	8,012	(2)	-
Total	\$ 3	\$ 8,181	\$ -	\$ 8,184	\$ (5)	\$ -

Six months ended June 30, 2011

	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	\$ 56	\$ 172	\$ -	\$ 228
Production and intermediate-term	3	13,549	-	13,552
Rural residential real estate	-	117	-	117
Total	\$ 59	\$ 13,838	\$ -	\$ 13,897

	Six months ended June 30, 2011				Effects of Modification	
	Post-modification Outstanding Recorded Investment				Provisions	Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
Troubled debt restructurings:						
Real estate mortgage	\$ 42	\$ 172	\$ -	\$ 214	\$ (5)	\$ -
Production and intermediate-term	3	8,009	-	8,012	(2)	-
Rural residential real estate	-	100	-	100	5	(5)
Total	<u>\$ 45</u>	<u>\$ 8,281</u>	<u>\$ -</u>	<u>\$ 8,326</u>	<u>\$ (2)</u>	<u>\$ (5)</u>

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

The following table presents 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 June 30, 2012	Six months ended June 30, 2012
Defaulted troubled debt restructurings:		
Real estate mortgage	\$ -	\$ -
Production and intermediate-term	31	31
Agribusiness		
Farm-related business	-	-
Rural residential real estate	-	-
Total	<u>\$ 31</u>	<u>\$ 31</u>

Payment default is defined as a payment that was thirty days or more past due.

TDRs outstanding at period end totaled \$15,406, of which \$14,871 were in nonaccrual status.

NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2012	2011
Pension	\$ 3,016	\$ 2,925
401(k)	226	221
Other postretirement benefits	430	542
Total	<u>\$ 3,672</u>	<u>\$ 3,688</u>

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

	Actual YTD Through 6/30/12	Projected Contributions For Remainder of 2012	Projected Total Contributions 2012
Pension	\$ 18	\$ 4,358	\$ 4,376
Other postretirement benefits	337	330	667
Total	<u>\$ 355</u>	<u>\$ 4,688</u>	<u>\$ 5,043</u>

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 5 – FAIR VALUE MEASUREMENT

FASB guidance defines fair value, establishes a framework for measuring fair value and requires fair value disclosures for certain assets and liabilities measured at fair value on a recurring and nonrecurring basis. These assets and liabilities consist primarily of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

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

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market

participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 10.30 percent of the issued stock of the Bank as of June 30, 2012 net of any reciprocal investment. As of that date, the Bank's assets totaled \$28.9 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$253 million for the first six months of 2012. In addition, the Association has an investment of \$490 related to other Farm Credit institutions.

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

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at June 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 June 30, 2012.

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

The carrying value of accrued interest approximates its fair value.

Level 3

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

Level 3 assets at June 30, 2012 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

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

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

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

For other investments, which consist of Tobacco Buyout SIIC, fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.

Other property owned is classified as a level 3 asset at June 30, 2012. The fair value is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

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

Information about Sensitivity to Changes in Significant Unobservable Inputs

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

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

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2012 and 2011. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first six months of 2012 and 2011.

	Standby Letters Of Credit		Standby Letters Of Credit
Balance at January 1, 2012	\$ 34	Balance at January 1, 2011	\$ 166
Total gains or (losses) realized/unrealized:		Total gains or (losses) realized/unrealized:	
Included in earnings	-	Included in earnings	-
Included in other comprehensive income (loss)	-	Included in other comprehensive income (loss)	-
Purchases	-	Purchases	-
Sales	-	Sales	-
Issuances	24	Issuances	-
Settlements	-	Settlements	(52)
Transfers in and/or out of level 3	-	Transfers in and/or out of level 3	-
Balance at June 30, 2012	<u>\$ 58</u>	Balance at June 30, 2011	<u>\$ 114</u>

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

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

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

Information about Other Financial Instrument Fair Value Measurements

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

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

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

June 30, 2012						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Comprehensive Income
Recurring Measurements						
Assets:						
Assets held in Trust funds	\$ 497	\$ 497	\$ -	\$ -	\$ 497	\$ 136
Recurring Assets	\$ 497	\$ 497	\$ -	\$ -	\$ 497	\$ 136
Liabilities:						
Standby letters of credit	\$ 58	\$ -	\$ -	\$ 58	\$ 58	\$ -
Recurring Liabilities	\$ 58	\$ -	\$ -	\$ 58	\$ 58	\$ -
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 48,644	\$ -	\$ -	\$ 48,644	\$ 48,644	\$ (1,635)
Other property owned	6,275	-	-	6,875	6,875	(889)
Nonrecurring Assets	\$ 54,919	\$ -	\$ -	\$ 55,519	\$ 55,519	\$ (2,524)
Other Financial Instruments						
Assets:						
Cash	\$ 5,304	\$ 5,304	\$ -	\$ -	\$ 5,304	
Investment securities, held-to-maturity	2,864	-	-	3,145	3,145	
Loans	1,097,931	-	-	1,109,963	1,109,963	
Other investments	23,091	-	-	23,866	23,866	
Accrued interest receivable	12,828	-	12,828	-	12,828	
Other Assets	\$ 1,142,018	\$ 5,304	\$ 12,828	\$ 1,136,974	\$ 1,155,106	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 991,309	\$ -	\$ -	\$ 995,975	\$ 995,975	
Accrued interest payable	2,066	-	2,066	-	2,066	
Other Liabilities	\$ 993,375	\$ -	\$ 2,066	\$ 995,975	\$ 998,041	

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	\$ 502	\$ -	\$ -	\$ 502
Total Assets	\$ 502	\$ -	\$ -	\$ 502
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 34	\$ 34
Total Liabilities	\$ -	\$ -	\$ 34	\$ 34

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	\$ -	\$ -	\$ 8,823	\$ 8,823	\$ (11,855)
Other property owned	\$ -	\$ -	\$ 6,955	\$ 6,955	\$ (1,158)

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	\$ 2,757	\$ 2,757
Loans, net of allowance	\$ 1,166,458	\$ 1,184,881
Accrued interest receivable	\$ 13,118	\$ 13,118
Investment securities	\$ 2,433	\$ 2,717
Other investments	\$ 34,624	\$ 35,778
Assets held in trust funds	\$ 502	\$ 502
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	\$ 1,043,240	\$ 1,056,828

NOTE 6 - ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Employee Benefit Plans	
Balance at December 31, 2011	\$	(1,066)
Other comprehensive income		126
Balance at June 30, 2012	\$	(940)
Balance at December 31, 2010	\$	(1,000)
Other comprehensive income		91
Balance at June 30, 2011	\$	(909)

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Other Comprehensive Income and Reclassification Amounts:				
Amounts reclassified to net periodic pension costs	\$ 83	\$ 57	\$ 167	\$ 114
Net prior service cost	-	-	-	(18)
Net gain (loss) during period	-	-	(41)	(5)
Defined benefit post retirement plans, net	\$ 83	\$ 57	\$ 126	\$ 91

NOTE 7 - SUBSEQUENT EVENTS

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