

# THIRD QUARTER 2011

## TABLE OF CONTENTS

Report on Internal Control Over Financial Reporting .....	2
Management's Discussion and Analysis of Financial Condition and Results of Operations .....	3
Consolidated Financial Statements	
Consolidated Balance Sheets .....	8
Consolidated Statements of Income .....	9
Consolidated Statements of Changes in Members' Equity .....	10
Notes to the Consolidated Financial Statements .....	11

## CERTIFICATION

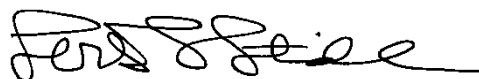
The undersigned certify that we have reviewed the September 30, 2011 quarterly report of Farm Credit of Central Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Reginald T. Holt  
Chief Executive Officer



D. Scott Fontenot  
Chief Financial Officer



Lewis S. Stidham  
Chairman of the Audit committee

November 7, 2011

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*Farm Credit of Central Florida, 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, 2011. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of September 30, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2011.



Reginald T. Holt  
Chief Executive Officer



D. Scott Fontenot  
Chief Financial Officer

November 7, 2011

# 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 Farm Credit of Central Florida, ACA, (Association) for the period ended September 30, 2011. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2010 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 horticulture, fruits/vegetables, citrus, and cattle. 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 level of dependency on a given commodity.

### September 30, 2011 compared to December 31, 2010

Loan volume of the Association as of September 30, 2011, was \$336,285, a decrease of \$39,716 as compared to \$376,001 at December 31, 2010. Net loans outstanding at September 30, 2011, were \$330,250 as compared to \$371,575 at December 31, 2010. The Association has investment securities that are classified as held to maturity in the amount of \$47,072 at September 30, 2011, as compared to \$45,476 at December 31, 2010. Net loans and investment securities accounted for 93.50 percent of total assets at September 30, 2011, as compared to 92.33 percent of total assets at December 31, 2010.

The Association's total servicing portfolio has decreased to \$885,547 as compared to \$987,893 at December 31, 2010 due to large corporate customers lowering their commitment lines coupled by flat lending activity to other existing corporate and commercial customers. The decrease in net loan volume is primarily due to seasonal lending. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between October and December and declines between January and June as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops. The result of this normal seasonal

lending activity causes net loan volume to decrease on revolving credit lines. Due to internal hold limits on individual credits and/or commodities and capital and growth management initiatives, more loan volume has been sold through loan participations to various AgFirst participation pools resulting in participation sold volume to be increased.

## ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. While credit administration remains satisfactory, portfolio credit quality has weakened as compared to prior periods, primarily in those loans secured by real estate and in the nursery industry. Acceptable and ODEM credit quality as a percentage of total loan portfolio was 86.32% as of September 30, 2011 compared to 88.27% at December 31, 2010 and 85.64% at September 30, 2010. Nonaccrual loan volume was \$19,092 at September 30, 2011, compared to \$23,910 at December 31, 2010 and \$26,955 at September 30, 2010, a decrease of \$4,818 and a decrease of \$7,863, respectively. Majority of the loan assets in nonaccrual are associated with several loans in the nursery industry, several agricultural real estate loans and residential lot loans.

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, 2011, was \$6,035 compared to \$4,426 at December 31, 2010 and \$8,831 at September 30, 2010, and is considered by management to be adequate to cover possible losses. The allowance for loan loss is broken down between specific reserves assigned to an individual loan and general reserves which are available for the possible losses within the entire portfolio. The current allowance for loan loss at September 30, 2011 contains \$3,318 in specific reserves and \$2,717 in general reserves. The following outlines the allowance for loan loss activity as of September 30, 2011.

Allowance for Loan Losses	Q1	Q2	Q3	YTD
Activity:	2011	2011	2011	2011
Balance at beginning of period	\$ 4,426	\$ 6,615	\$ 7,549	\$ 4,426
Charge-offs	(1,030)	(237)	(2,777)	(4,044)
Recoveries	81	28	142	251
Provisions/(Reversals)-General	501	292	177	970
Provisions/(Reversals)-Specifics	<u>2,637</u>	<u>851</u>	<u>944</u>	<u>4,432</u>
Balance at end of period	<u>\$ 6,615</u>	<u>\$ 7,549</u>	<u>\$ 6,035</u>	<u>\$ 6,035</u>

The decrease in allowance for loan losses compared to December 2010 was a direct result of the decreased chargeoffs during 2011 within the nursery, cattle and real estate portfolios. Total chargeoffs for the entire year of 2010 were \$10,350 as compared to the chargeoffs year to date for 2011 of \$4,044. Chargeoffs are funded through an increase in the provision for loan losses, which was the primary cause for the significantly low final net income.

## RESULTS OF OPERATIONS

### For the three months ended September 30, 2011

Net income for the three months ended September 30, 2011, totaled \$(1,001), as compared to \$(595) for the same period in 2010. The decrease of \$406 for the period is associated directly with less noninterest income generated and increased noninterest expense as compared to same period prior year.

Net interest income increased \$240 for the three months ended September 30, 2011, as compared to the same period in 2010. The primary reason for the increase is the improved earning spreads associated with the net loan assets as compared to the same time last year. Net interest income for the three months ending September 30, 2011 is shown in the following table:

Net Interest Income	For the three months ended September 30,			
	2011	2010	\$ change	% change
Investment Interest Income	\$ 251	\$ 210	\$ 41	19.52 %
Loan Interest Income	4,060	4,122	(62)	(1.50)
Total Interest Income	4,311	4,332	(21)	(0.48)
Total Interest Expense	1,795	2,056	(261)	(12.69)
Net Interest Income	\$ 2,516	\$ 2,276	\$ 240	10.54 %

Provisions for loan losses for the quarter totaled \$1,121, as compared to \$2,380 for the same period last year. The decrease in provisions was due mostly to the decrease in specific reserves on certain nursery and real estate lot loans. Provisions for loan losses for the three months ending September 30, 2011 are shown in the following table:

Provisions for Loan Losses	For the three months ended September 30,			
	2011	2010	\$ change	% change
General Reserves	\$ 177	\$ (580)	\$ 757	130.52
Specific Reserves	944	2,960	(2,016)	(68.11)
Total Provisions/(Reversals)	\$ 1,121	\$ 2,380	\$ (1,259)	(52.90)

Noninterest income for the three months ended September 30, 2011, totaled \$(379), as compared to \$1,292 for the same period of 2010, a decrease of \$1,671. The decrease is primarily the result of decreased Equity in Earnings of other Farm Credit Institutions as well as an increase in losses on Other Property Owned (OPO). Equity in Earnings from other Farm Credit Institutions declined from prior period due to lower patronage earnings from the Capitalized Participation Pool (CPP) as well as lower patronage earnings from both the General and AgFirst participation pools. The reduced patronage from the CPP was a result of increased loan provisions for the pool. The lower patronage from the other pools was a result of lower loan asset volumes within the pools. In addition, the Association received a \$272 Special Patronage payment from AgFirst. Losses on OPO have increased due to increased assets in OPO from prior period. The losses are made up of expenses of holding the OPO asset as well as write-downs of the asset due to lower market values for the properties and additional losses taken at the time of the sale of the asset. Noninterest income for the three months ending September 30, 2011 is shown in the following table:

Noninterest Income	For the three months ended September 30,			
	2011	2010	\$ change	% change
Loan fees	\$ 205	\$ 224	\$ (19)	(8.48)
Fees for financially related services	42	4	38	950.00
Equity in earnings from other Farm Credit Institutions	776	1,195	(419)	(35.06)
Gains (losses) on other property owned, net	(1,415)	(187)	(1,228)	656.68
Gains (losses) on sales of rural home loans, net	23	54	(31)	(57.41)
Insurance Fund refund				
Other noninterest income	(10)	2	(12)	(600.00)
Total noninterest income	\$ (379)	\$ 1,292	\$ (1,671)	(129.33)

Noninterest expense for the three months ended September 30, 2011, increased \$234 compared to the same period of 2010. The primary reasons for the increase were the increase in Salary and Employee Benefits and Other Operating Expenses as compared to prior period. During the third quarter of 2011, the Association has been able to achieve full employment as compared to the third quarter of 2010. As a result, Salary and Employee Benefits are up 10.23% from same period prior year. Other Operating Expenses are 30.18% higher than same period prior year due to the implementation of loans guaranteed in the FarmerMac Long Term Stand-by Guarantee Program. The Association pays a fee to FarmerMac for an unconditional guarantee on certain loan assets placed in the program. In addition, the Association entered into a service contract with AgFirst to provide the ACA with all necessary personnel and assistance for the maintenance and management of all information technology issues.

Noninterest expense for the three months ending September 30, 2011 is shown in the following table:

Noninterest Expense	For the three months ended September 30,			
	2011	2010	\$ change	% change
Salary and employee benefits	\$ 1,368	\$ 1,241	\$ 127	10.23
Occupancy and equipment	174	172	2	1.16
Insurance Fund Premium	48	42	6	14.29
Other operating expenses	427	328	99	30.18
Total noninterest expense	<u>\$ 2,017</u>	<u>\$ 1,783</u>	<u>\$ 234</u>	<u>13.12</u>

#### For the nine months ended September 30, 2010

Net income for the nine months ended September 30, 2011, totaled \$(2,218) as compared to \$1,071 for the same period in 2010. The decrease of \$3,289 for the period is associated directly with decreased Equity in Earnings of other Farm Credit Institutions as well as an increase in losses on Other Property Owned (OPO).

Net interest income increased \$798 for the nine months ended September 30, 2011, as compared to the same period in 2010. The primary reason for the increase is the decrease in non-performing assets coupled with the improved earning spreads associated with the net loan assets. Net interest income for the nine months ending September 30, 2011 is shown in the following table:

Net Interest Income	For the nine months ended September 30,			
	2011	2010	\$ change	% change
Investment Interest Income	\$ 702	\$ 662	\$ 40	6.04
Loan Interest Income	12,489	12,499	(10)	(0.08)
Total Interest Income	13,191	13,161	30	0.23
Total Interest Expense	5,754	6,522	(768)	(11.78)
Net Interest Income	<u>\$ 7,437</u>	<u>\$ 6,639</u>	<u>\$ 798</u>	<u>12.02</u>

The effects of changes in average volume and interest rates on net interest income over the past nine months are presented in the following table:

#### Change in Net Interest Income:

Change in NII	Volume	Rate	Non- accrual	Amortization	Total
	<i>(dollars in thousands)</i>				
	\$ (33)	\$ 689	\$ 64	\$ 78	\$ 798

Provisions for loan losses for the year totaled \$5,402, as compared to \$6,005 for the same period last year. The decrease in provisions was due mostly to the necessary increases required for the general reserves offset by the

decreases required for the specific reserves. Provisions for loan losses for the nine months ending September 30, 2010 are shown in the following table:

Provisions for Loan Losses	For the nine months ended September 30,			
	2011	2010	\$ change	% change
General Reserves	\$ 970	\$ (198)	\$ 1,168	589.90
Specific Reserves	4,432	6,203	(1,771)	(28.55)
Total Provisions/(Reversals)	<u>\$ 5,402</u>	<u>\$ 6,005</u>	<u>\$ (603)</u>	<u>(10.04)</u>

Noninterest income for the nine months ended September 30, 2011, totaled \$1,818, as compared to \$5,938 for the same period of 2010, a decrease of \$4,120. The decrease is primarily the result of the decrease in Equity in Earnings of other Farm Credit Institutions and increased losses on other property owned. The Association's patronage earnings from the Capitalized Participation Pool (CPP) with AgFirst decreased \$1,407 for the nine months ending September 30, 2011 compared to the nine months ending September 30, 2010 due to increased provisions. In addition, the Association received less patronage payment from AgFirst as a result of decrease loan assets sold to the AgFirst pool. Losses on OPO increased by \$1,734 for the nine months ending September 30, 2011, as compared to the same period in 2010. The primary reason for the increase is the increased assets in OPO from prior period. The losses are made up of expenses of holding the OPO asset as well as write-downs of the asset due to lower market values for the properties and additional losses taken at the time of the sale of the asset. During the first quarter of 2010, the Association recorded \$428 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. 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 income for the nine months ending September 30, 2011 is shown in the following table:

Noninterest Income	For the nine months ended September 30,			
	2011	2010	\$ change	% change
Loan fees	\$ 415	\$ 508	\$ (93)	(18.31)
Fees for financially related services	132	174	(42)	(24.14)
Equity in earnings from other Farm Credit Institutions	3,327	5,019	(1,692)	(33.71)
Gains (losses) on other property owned, net	(2,144)	(410)	1,734	422.93
Gains (losses) on sales of rural home loans, net	54	134	(80)	(59.70)
Insurance Fund Refund	-	428	(428)	(100.00)
Other noninterest income	34	85	(51)	(60.00)
Total noninterest income	<u>\$ 1,818</u>	<u>\$ 5,938</u>	<u>\$ (4,120)</u>	<u>(69.38)</u>

Noninterest expense for the nine months ended September 30, 2011, increased \$570 compared to the same period of 2010. The primary reasons for the increase were an increase in Salary and Employee Benefits and Other Operating Expenses as compared to the prior period. During 2011, the Association has been able to achieve full employment as compared to the period prior year. As a result, Salary and Employee Benefits are up 8.06% from same period prior year. Other Operating Expenses are 22.99% higher than same period prior year due to the implementation of loans guaranteed in the FarmerMac Long Term Stand-by Guarantee Program. The Association pays a fee to FarmerMac for an unconditional guarantee on certain loan assets placed in the program. In addition, the Association entered into a service contract with AgFirst to provide the ACA with all necessary personnel and assistance for the maintenance and management of all information technology issues. Noninterest expense for the nine months ending September 30, 2011 is shown in the following table:

Noninterest Expense	For the nine months ended			
	September 30,			
	2011	2010	\$ change	% change
Salary and employee benefits	\$ 4,117	\$ 3,810	\$ 307	8.06
Occupancy and equipment	520	514	6	1.17
Insurance Fund Premium	150	133	17	12.78
Other operating expenses	1,284	1,044	240	22.99
Total noninterest expense	\$ 6,071	\$ 5,501	\$ 570	10.36

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate 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, 2011, was \$323,629 as compared to \$369,260 at December 31, 2010. The decrease is attributable to pay downs on loans received during the normal course of business being greater than borrowings to fund new loan advances.

## CAPITAL RESOURCES

Total members' equity at September 30, 2011, decreased to \$75,179 from the December 31, 2010, total of \$77,484. The decrease is primarily attributed to the decrease in unallocated surplus resulting from the decreased net income.

Total capital stock and participation certificates were \$1,046 on September 30, 2011, compared to \$1,129 on December 31, 2010. This decrease is attributed to the retirement of stock and participation certificates on loans liquidated in the normal course of business.

Farm Credit Administration 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, 2011, the Association's total surplus ratio and core surplus ratio were 18.88 percent and 16.38 percent, respectively, and the permanent capital ratio was 19.58 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

On July 8, 2010, the Farm Credit Administration issued an advance notice of proposed rulemaking (ANPRM) to gather public comments on the promulgation of Tier 1 and Tier 2 capital standards for Farm Credit System institutions. The Tier 1/Tier 2 capital standards would be similar to the capital tiers delineated in the Basel Accord that other Federal financial regulatory agencies have adopted for the banking organizations they regulate. The Farm Credit Administration sought comments to facilitate the development of this regulatory capital framework, this includes new minimum risk-based and leverage ratio capital requirements that take into consideration both the System's cooperative structure of primarily wholesale banks owned by retail lender Associations that are, in turn, owned by their member borrowers, and the System's status as a GSE. The comment period for the ANPRM originally ended November 5, 2010 but it was extended through May 4, 2011.

## Financial Regulatory Reform

On August 18, 2011, the FCA published for comment an amendment to the regulations governing investments held by institutions of the System. The stated objectives of the proposed rule are to:

- ensure that the Banks hold sufficient high quality, readily marketable investments to provide sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption;
- strengthen the safety and soundness of System institutions;
- seek comments on how the FCA can comply with section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires the FCA to remove all references to and requirements relating

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to credit ratings and to substitute other appropriate standards of creditworthiness;

- reduce regulatory burden with respect to investments that fail to meet eligibility criteria after purchase or are unsuitable; and
- enhance the ability of the System to supply credit to agriculture and aquatic producers by ensuring adequate availability to funds.

The System is in the process of developing a response to the proposed amendment to the investment regulations. Comments are due by November 16, 2011.

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**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](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-533-2773, or writing D. Scott Fontenot, CFO, Farm Credit of Central Florida, ACA, P. O. Box 8009, Lakeland, FL 33802, or accessing the website, [www.farmcreditfl.com](http://www.farmcreditfl.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.

# Farm Credit Of Central Florida, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>September 30, 2011</b> <i>(unaudited)</i>	<b>December 31, 2010</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 71	\$ 13
Investment securities:		
Held to maturity (fair value of \$47,672 and \$45,946 respectively)	47,072	45,476
Loans	336,285	376,001
Less: allowance for loan losses	6,035	4,426
Net loans	330,250	371,575
Accrued interest receivable	1,568	1,735
Investments in other Farm Credit institutions	11,981	13,348
Premises and equipment, net	785	870
Other property owned	4,933	6,806
Due from AgFirst Farm Credit Bank	3,045	6,980
Other assets	3,862	4,890
Total assets	<u>\$ 403,567</u>	<u>\$ 451,693</u>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 323,629	\$ 369,260
Accrued interest payable	577	724
Patronage refund payable	26	29
Other liabilities	4,156	4,196
Total liabilities	<u>328,388</u>	<u>374,209</u>
Commitments and contingencies		
<b>Members' Equity</b>		
Protected borrower stock	6	19
Capital stock and participation certificates	1,040	1,110
Retained earnings		
Allocated	33,183	33,183
Unallocated	40,935	43,153
Accumulated other comprehensive income	15	19
Total members' equity	<u>75,179</u>	<u>77,484</u>
Total liabilities and members' equity	<u>\$ 403,567</u>	<u>\$ 451,693</u>

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

Farm Credit Of Central Florida, ACA

# Consolidated Statements of Operations

(unaudited)

<i>(dollars in thousands)</i>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Interest Income</b>				
Investment securities	\$ 251	\$ 210	\$ 702	\$ 663
Loans	4,060	4,122	12,489	12,498
Total interest income	4,311	4,332	13,191	13,161
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	1,795	2,056	5,754	6,522
Net interest income	2,516	2,276	7,437	6,639
Provision for loan losses	1,121	2,380	5,402	6,005
Net interest income (loss) after provision for loan losses	1,395	(104)	2,035	634
<b>Noninterest Income</b>				
Loan fees	205	224	415	508
Fees for financially related services	42	4	132	174
Patronage refund from other Farm Credit institutions	776	1,195	3,327	5,019
Gains (losses) on other property owned, net	(1,415)	(187)	(2,144)	(410)
Gains (losses) on sale of rural home loans, net	23	54	54	134
Insurance Fund refunds	—	—	—	428
Other noninterest income (expense)	(10)	2	34	85
Total noninterest income (expense)	(379)	1,292	1,818	5,938
<b>Noninterest Expense</b>				
Salaries and employee benefits	1,368	1,241	4,117	3,810
Occupancy and equipment	174	172	520	514
Insurance Fund premium	48	42	150	133
Other operating expenses	427	328	1,284	1,044
Total noninterest expense	2,017	1,783	6,071	5,501
Net income (loss)	\$ (1,001)	\$ (595)	\$ (2,218)	\$ 1,071

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

Farm Credit Of Central Florida, ACA

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

*(dollars in thousands)*

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2009	\$ 33	\$ 1,213	\$ 33,183	\$ 42,338	\$ 27	\$ 76,794
Comprehensive income						
Net income				1,071		1,071
Employee benefit plans adjustments					1	1
Total comprehensive income						1,072
Protected borrower equity retired	(13)					(13)
Capital stock/participation certificates issued/(retired), net		(75)				(75)
Patronage distribution adjustment				(82)		(82)
Balance at September 30, 2010	\$ 20	\$ 1,138	\$ 33,183	\$ 43,327	\$ 28	\$ 77,696
Balance at December 31, 2010	\$ 19	\$ 1,110	\$ 33,183	\$ 43,153	\$ 19	\$ 77,484
Comprehensive income (loss)						
Net income (loss)				(2,218)		(2,218)
Employee benefit plans adjustments					(4)	(4)
Total comprehensive income (loss)						(2,222)
Protected borrower equity retired	(13)					(13)
Capital stock/participation certificates issued/(retired), net		(70)				(70)
Balance at September 30, 2011	\$ 6	\$ 1,040	\$ 33,183	\$ 40,935	\$ 15	\$ 75,179

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

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*Farm Credit of Central Florida, 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 Farm Credit of Central Florida, 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, 2010, are contained in the 2010 Annual Report to Shareholders. These unaudited third quarter 2011 consolidated financial statements should be read in conjunction with the 2010 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, 2011, are not necessarily indicative of the results to be expected for the year ending December 31, 2011.

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30, 2011, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

### **Recently Issued Accounting Pronouncements**

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The amendment is intended to provide for more information about an employer's financial obligations to multiemployer pension and other postretirement benefit plans, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another

employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented.

In June 2011, the FASB issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This amendment is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. This guidance is to be applied retrospectively. For public entities, it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – 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.

In April 2011, the FASB issued guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring (TDR). In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities, including the Association, 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. The impact of adoption of this guidance, if any, is expected to be immaterial to the Association's financial condition and results of operations, but it will result in additional disclosures.

In January 2011, the FASB issued guidance entitled, "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.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This amendment provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period were effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in significant additional disclosures (see Note 3).

Effective January 1, 2010, the Association adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 6).

Other recently issued accounting pronouncements are discussed in the 2010 Annual Report to Shareholders.

**NOTE 2 — INVESTMENT SECURITIES**

A summary of the amortized cost and fair value of investment securities held-to-maturity at September 30, 2011 and December 31, 2010 follows:

<b>September 30, 2011</b>					
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Yield</b>
Asset-backed securities	\$ 47,072	\$ 674	\$ (74)	\$ 47,672	2.01%

<b>December 31, 2010</b>					
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Yield</b>
Asset-backed securities	\$ 45,476	\$ 530	\$ (60)	\$ 45,946	1.82%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities held-to-maturity at September 30, 2011 follows:

	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Weighted Average Yield</b>
In one year or less	\$ 39	\$ 39	3.64%
After one year through five years	1,325	1,358	1.22
After five years through ten years	28,190	28,712	2.14
After ten years	17,518	17,563	1.85
Total	<u>\$ 47,072</u>	<u>\$ 47,672</u>	<u>2.01%</u>

The Association's investments consist of asset-backed securities (ABSs). These ABSs are rated AAA and they are guaranteed by the full faith and credit of the United States government. ABSs are held for managing short-term surplus funds and managing interest rate risk. These securities must meet the applicable Farm Credit Administration (FCA) regulatory guidelines, which require these securities to be high quality, senior class, and rated AAA at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through over collateralization and the priority of payments of senior classes over junior classes. The FCA considers an asset-backed security investment ineligible if it falls below the AAA credit rating criteria and requires System institutions to divest of such an investment unless approval is granted to continue to hold by the FCA. All of the Association's asset-backed securities at September 30, 2011 are considered eligible under FCA regulatory guidelines.

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 have been in a continuous unrealized loss position aggregated by investment category at September 30, 2011 and December 31, 2010.

<b>September 30, 2011</b>				
	<b>Less than 12 Months</b>		<b>Greater than 12 Months</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Asset-backed securities	\$ 4,197	\$ (38)	\$ 1,030	\$ (36)

<b>December 31, 2010</b>				
	<b>Less than 12 Months</b>		<b>Greater than 12 Months</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Asset-backed securities	\$ 1,885	\$ (11)	\$ 1,369	\$ (49)

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, especially after considering credit enhancements. 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. Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform.

**NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES**

A summary of loans outstanding as of September 30, 2011 and December 31, 2010, follows:

	September 30, 2011	December 31, 2010
Real estate mortgage	\$ 135,396	\$ 135,214
Production and intermediate-term Agribusiness	146,743	175,070
Loans to cooperatives	15,884	18,711
Processing and marketing	5,333	5,933
Farm-related business	11,829	17,270
Total agribusiness	33,046	41,914
Energy	2,736	2,969
Rural residential real estate	18,364	20,834
<b>Total Loans</b>	<b>\$ 336,285</b>	<b>\$ 376,001</b>

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. The following tables present participations purchased and sold balances at September 30, 2011 and December 31, 2010:

	September 30, 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	\$ -	\$ 67,988	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,988
Production and intermediate-term Agribusiness	17,793	187,579	-	-	-	-	17,793	187,579
Loans to cooperatives	493	3,661	-	-	-	-	493	3,661
Processing and marketing	1,157	4,420	-	-	-	-	1,157	4,420
Farm-related business	-	2,228	-	-	-	-	-	2,228
Total agribusiness	1,650	10,309	-	-	-	-	1,650	10,309
Energy	2,736	-	-	-	-	-	2,736	-
<b>Total</b>	<b>\$ 22,179</b>	<b>\$ 265,876</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 22,179</b>	<b>\$ 265,876</b>

	December 31, 2010							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ -	\$ 81,750	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,750
Production and intermediate-term Agribusiness	18,318	256,485	-	-	-	-	18,318	256,485
Loans to cooperatives	1,008	8,673	-	-	-	-	1,008	8,673
Processing and marketing	4,940	6,995	-	-	-	-	4,940	6,995
Farm-related business	-	2,324	-	-	-	-	-	2,324
Total agribusiness	5,948	17,992	-	-	-	-	5,948	17,992
Energy	2,969	-	-	-	-	-	2,969	-
<b>Total</b>	<b>\$ 27,235</b>	<b>\$ 356,227</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 27,235</b>	<b>\$ 356,227</b>

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 September 30, 2011 and indicates that approximately 23.59 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	\$ 14,269	\$ 42,112	\$ 79,015	\$ 135,396
Production and intermediate-term Agribusiness	55,405	66,816	24,522	146,743
Loans to cooperatives	2,539	8,221	5,124	15,884
Processing and marketing	1,410	982	2,941	5,333
Farm-related business	703	3,549	7,577	11,829
Total agribusiness	4,652	12,752	15,642	33,046
Energy	2,736	-	-	2,736
Rural residential real estate	2,253	4,529	11,582	18,364
<b>Total Loans</b>	<b>\$ 79,315</b>	<b>\$ 126,209</b>	<b>\$ 130,761</b>	<b>\$ 336,285</b>



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 September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011	December 31, 2010
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 8,536	\$ 7,375
Production and intermediate-term	8,864	13,981
Agribusiness		
Loans to cooperatives	-	-
Farm-related business	-	41
Total agribusiness	-	41
Rural residential real estate	1,692	2,513
Total nonaccrual loans	<u>\$ 19,092</u>	<u>\$ 23,910</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ -	\$ -
Production and intermediate-term	21	-
Agribusiness		
Loans to cooperatives	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Total accruing restructured loans	<u>\$ 21</u>	<u>\$ -</u>
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ -	\$ -
Production and intermediate-term	-	-
Agribusiness		
Loans to cooperatives	-	-
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	\$ 19,113	\$ 23,910
Other property owned	4,933	6,806
Total nonperforming assets	<u>\$ 24,046</u>	<u>\$ 30,716</u>
Nonaccrual loans as a percentage of total loans	5.68%	6.36%
Nonperforming assets as a percentage of total loans and other property owned	7.05%	8.02%
Nonperforming assets as a percentage of capital	<u>31.98%</u>	<u>39.64%</u>

The following table presents information relating to impaired loans (including accrued interest) at September 30, 2011 and December 31, 2010. 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, 2011	December 31, 2010
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 4,088	\$ 5,792
Past due	15,004	18,118
Total impaired nonaccrual loans	<u>19,092</u>	<u>23,910</u>
<b>Impaired accrual loans:</b>		
Restructured	21	-
90 days or more past due	-	-
Total impaired accrual loans	<u>21</u>	<u>-</u>
Total impaired loans	<u>\$ 19,113</u>	<u>\$ 23,910</u>

Additional impaired loan information as of September 30, 2011 and December 31, 2010 is as follows:

	September 30, 2011			Quarter Ended September 30, 2011		Nine Months Ended September 30, 2011	
	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
<b>Impaired loans with a related allowance for credit losses:</b>							
Real estate mortgage	\$ 3,996	\$ 4,623	\$ 1,709	\$ 4,829	\$ 19	\$ 5,149	\$ 53
Production and intermediate-term	4,648	6,688	1,142	5,616	23	5,989	61
Rural residential real estate	1,098	1,232	468	1,327	5	1,415	14
Total	\$ 9,742	\$ 12,543	\$ 3,319	\$ 11,772	\$ 47	\$ 12,553	\$ 128
<b>Impaired loans with no related allowance for credit losses:</b>							
Real estate mortgage	\$ 4,540	\$ 5,237	\$ -	\$ 5,486	\$ 22	\$ 5,850	\$ 59
Production and intermediate-term	4,237	6,339	-	5,120	20	5,460	56
Rural residential real estate	594	1,455	-	718	3	765	8
Total	\$ 9,371	\$ 13,031	\$ -	\$ 11,324	\$ 45	\$ 12,075	\$ 123
<b>Total impaired loans:</b>							
Real estate mortgage	\$ 8,536	\$ 9,860	\$ 1,709	\$ 10,315	\$ 41	\$ 10,999	\$ 112
Production and intermediate-term	8,885	13,027	1,142	10,736	43	11,449	117
Rural residential real estate	1,692	2,687	468	2,045	8	2,180	22
Total	\$ 19,113	\$ 25,574	\$ 3,319	\$ 23,096	\$ 92	\$ 24,628	\$ 251

	December 31, 2010			Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,918	\$ 4,109	\$ 1,392	\$ 4,940	\$ 12
Production and intermediate-term	4,768	5,579	949	6,011	15
Agribusiness					
Farm-related business	-	-	-	-	-
Total agribusiness	-	-	-	-	-
Rural residential real estate	1,013	1,037	338	1,277	3
Total	\$ 9,699	\$ 10,725	\$ 2,679	\$ 12,228	\$ 30
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,457	\$ 4,349	\$ -	\$ 4,358	\$ 11
Production and intermediate-term	9,213	15,276	-	11,615	28
Agribusiness					
Farm-related business	41	54	-	52	-
Total agribusiness	41	54	-	52	-
Rural residential real estate	1,500	2,404	-	1,892	5
Total	\$ 14,211	\$ 22,083	\$ -	\$ 17,917	\$ 44
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 7,375	\$ 8,458	\$ 1,392	\$ 9,298	\$ 23
Production and intermediate-term	13,981	20,855	949	17,626	43
Agribusiness					
Farm-related business	41	54	-	52	-
Total agribusiness	41	54	-	52	-
Rural residential real estate	2,513	3,441	338	3,169	8
Total	\$ 23,910	\$ 32,808	\$ 2,679	\$ 30,145	\$ 74

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 September 30, 2011 and December 31, 2010.

A summary of changes in the allowance for loan losses and period end recorded investment in loans at September 30, 2011 and December 31, 2010 is as follows:

September 30, 2011							
	Real Estate Mortgage	Production and Intermediate -term	Agribusiness	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total	
<b>Allowance for credit losses:</b>							
Balance at December 31, 2010	\$ 2,266	\$ 1,585	\$ 59	\$ 4	\$ 512	\$ 4,426	
Charge-offs	(805)	(2,354)	-	-	(885)	(4,044)	
Recoveries	17	205	-	-	29	251	
Provision for loan losses	1,136	3,341	(51)	-	976	5,402	
Balance at September 30, 2011	\$ 2,614	\$ 2,777	\$ 8	\$ 4	\$ 632	\$ 6,035	

September 30, 2011 allowance ending balance:

Loans individually evaluated for impairment	\$ 1,709	\$ 1,142	\$ -	\$ -	\$ 468	\$ 3,319	
Loans collectively evaluated for impairment	\$ 905	\$ 1,635	\$ 8	\$ 4	\$ 164	\$ 2,716	

**Recorded investment in loans outstanding:**

Ending Balance at September 30, 2011	\$ 135,981	\$ 147,212	\$ 33,181	\$ 2,736	\$ 18,462	\$ 337,572	
September 30, 2011 recorded investment ending balance:							
Loans individually evaluated for impairment	\$ 8,536	\$ 8,864	\$ -	\$ -	\$ 1,692	\$ 19,092	
Loans collectively evaluated for impairment	\$ 127,445	\$ 138,348	\$ 33,181	\$ 2,736	\$ 16,770	\$ 318,480	

December 31, 2010							
	Real Estate Mortgage	Production and Intermediate -term	Agribusiness	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total	
<b>Allowance for credit losses:</b>							
Balance at December 31, 2009	\$ 2,144	\$ 2,729	\$ 143	\$ 12	\$ 931	\$ 5,959	
Charge-offs	(2,170)	(7,048)	(111)	-	(1,315)	(10,644)	
Recoveries	15	244	-	-	35	294	
Provision for loan losses	2,277	5,660	27	(8)	861	8,817	
Balance at December 31, 2010	\$ 2,266	\$ 1,585	\$ 59	\$ 4	\$ 512	\$ 4,426	

December 31, 2010 allowance ending balance:

Loans individually evaluated for impairment	\$ 1,392	\$ 949	\$ -	\$ -	\$ 338	\$ 2,679	
Loans collectively evaluated for impairment	\$ 874	\$ 636	\$ 59	\$ 4	\$ 174	\$ 1,747	

**Recorded investment in loans outstanding:**

Ending Balance at December 31, 2010	\$ 135,804	\$ 175,653	\$ 42,136	\$ 2,969	\$ 20,915	\$ 377,477	
December 31, 2010 recorded investment ending balance:							
Loans individually evaluated for impairment	\$ 7,375	\$ 13,981	\$ 41	\$ -	\$ 2,513	\$ 23,910	
Loans collectively evaluated for impairment	\$ 128,429	\$ 161,672	\$ 42,095	\$ 2,969	\$ 18,402	\$ 353,567	

#### NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the nine months ended September 30,	
	2011	2010
Pension	\$ 838	\$ 841
401(k)	116	106
Other postretirement benefits	153	133
Total	<u>\$ 1,107</u>	<u>\$ 1,080</u>

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

	Actual YTD Through 9/30/11	Projected Contributions For Remainder of 2011	Projected Total Contributions 2011
	Pension	\$ 16	\$ 907
Other postretirement benefits	117	63	180
Total	<u>\$ 133</u>	<u>\$ 970</u>	<u>\$ 1,103</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, 2011. Further details regarding employee benefit plans are contained in the 2010 Annual Report to Shareholders.

#### NOTE 5 – 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, 2010. The default allows the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. During the first quarter of 2011, the Bank approved a temporary waiver of the December 31, 2010 default and allowed the Association to continue to operate under a special credit agreement (SCA) pursuant to its GFA. The Association failed to meet its earnings covenant under the SCA at September 30, 2011. The Bank approved a temporary waiver of the September 30,

2011 SCA default and allowed the Association to operate under a revised SCA, which expires March 1, 2012.

#### NOTE 6 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of 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.

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 September 30, 2011 consist of assets held in trust funds related to a supplemental retirement plan. 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.

##### 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 or liabilities measured at fair value on a recurring basis at September 30, 2011.

### Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities 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 September 30, 2011 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.

Other property owned is classified as a Level 3 asset at September 30, 2011. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at September 30, 2011 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at September 30, 2011 and December 31, 2010 for each of the fair value hierarchy levels:

	September 30, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>				
Assets held in trust funds	\$ 139	\$ -	\$ -	\$ 139
Total Assets	\$ 139	\$ -	\$ -	\$ 139
<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 24	\$ 24
Total Liabilities	\$ -	\$ -	\$ 24	\$ 24

	December 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>				
Assets held in trust funds	\$ 151	\$ -	\$ -	\$ 151
Total Assets	\$ 151	\$ -	\$ -	\$ 151
<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 61	\$ 61
Total Liabilities	\$ -	\$ -	\$ 61	\$ 61

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2011 and 2010. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first nine months of 2011 and 2010.

	Standby Letters Of Credit
Balance at January 1, 2011	\$ 61
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases	-
Sales	-
Issuances	-
Settlements	(37)
Transfers in and/or out of level 3	-
Balance at September 30, 2011	\$ 24
<b>Standby Letters Of Credit</b>	
Balance at January 1, 2010	\$ 97
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(7)
Transfers in and/or out of level 3	-
Balance at September 30, 2010	\$ 90

## Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis at September 30, 2011 and December 31, 2010 for each of the fair value hierarchy values are summarized below:

September 30, 2011					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 6,423	\$ 6,423	\$ (4,432)
Other property owned	\$ -	\$ -	\$ 5,019	\$ 5,019	\$ (2,042)
<b>December 31, 2010</b>					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 7,020	\$ 7,020	\$ (9,296)
Other property owned	\$ -	\$ -	\$ 6,876	\$ 6,876	\$ (943)

## NOTE 7 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at September 30, 2011 and December 31, 2010.

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

The estimated fair values of the Association's financial instruments are as follows:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>				
Cash	\$ 71	\$ 71	\$ 13	\$ 13
Loans, net of allowance	\$ 331,537	\$ 334,498	\$ 373,051	\$ 369,038
Investment securities	\$ 47,353	\$ 47,672	\$ 45,735	\$ 45,946
Assets held in trust funds	\$ 139	\$ 139	\$ 151	\$ 151
<b>Financial liabilities:</b>				
Notes payable to AgFirst Farm Credit Bank	\$ 324,206	\$ 326,910	\$ 369,984	\$ 368,102

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value follows:

- A. **Cash:** The carrying value is primarily a reasonable estimate of fair value.
- B. **Loans:** Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Discount rates are based on the Bank's loan rates as well as management estimates.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated to be the carrying amount of the loan less specific reserves.

The book value of accrued interest, which has been included in the carrying amount of loans, approximates its fair value.

- C. **Investment Securities:** Fair value is primarily based upon prices obtained from a third party valuation service.
- D. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** 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 3.28 percent of the issued stock of the Bank as of September 30, 2011 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.3 billion and shareholders' equity totaled \$2.2 billion. The Bank's earnings were \$295 million during the first nine months of 2011.

In addition, the Association has an investment of \$307 related to other Farm Credit institutions.

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

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principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

The book value of accrued interest, which has been included in the carrying amount of notes payable, approximates its fair value.

F. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

G. **Assets Held in Trust Funds:** See Note 6 for discussion of estimation of fair value for this instrument.

#### **NOTE 8 – SUBSEQUENT EVENTS**

The Association has evaluated subsequent events and has determined there are none requiring disclosure through November 7, 2011, which is the date the financial statements were issued.