Farm Credit of Central Florida, ACA

FIRST QUARTER 2012

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2012 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

May 9, 2012

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

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

Reginald T. Holt
Chief Executive Officer

D. Scott Fontenot
Chief Financial Officer

May 9, 2012

Farm Credit of Central Florida, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Central Florida, ACA, (Association) for the period ended March 31, 2012. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2011 Annual Report of the Association. 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.

March 31, 2012 compared to December 31, 2011

Loan volume of the Association as of March 31, 2012, was $336,560, a decrease of $5,786 as compared to $342,346 at December 31, 2011. Net loans outstanding at March 31, 2012, were $326,081 as compared to $332,188 at December 31, 2011. The Association has investment securities that are classified as held to maturity in the amount of $51,916 at March 31, 2012, as compared to $47,285 at December 31, 2011. Net loans and investment securities accounted for 94.55 percent of total assets at March 31, 2012, as compared to 93.37 percent of total assets at December 31, 2011.

The Association's total servicing portfolio has decreased to $842,585 as compared to $881,718 at December 31, 2011 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. Portfolio credit quality has improved slightly as compared to prior periods. Acceptable and OAEM credit quality as a percentage of total loan portfolio was 86.84% as of March 31, 2012 compared to 86.04% at December 31, 2011 and 87.21% at March 31, 2011. Nonaccrual loan volume was $17,433 at March 31, 2012, compared to $18,815 at December 31, 2011 and $25,486 at March 31, 2011, a decrease of $1,382 and a decrease of $8,053, 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 March 31, 2012, was $10,479 compared to $10,158 at December 31, 2011 and $6,615 at March 31, 2011, 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 March 31, 2012 contains $4,621 in specific reserves and $5,858 in general reserves. The following outlines the allowance for loan loss activity as of March 31, 2012.

Allowance for Loan Losses Activity:	**YTD 2012**
Balance at beginning of period	$ 10,1588
Charge-offs	(717)
Recoveries	48
Provisions/(Reversals)-General	185
Provisions/(Reversals)–Specifics	805
Balance at end of period	$ 10,479

The increase in allowance for loan losses compared to December 2011 was a direct result of the increased provisions and charge-offs during 2012 within the nursery and real estate portfolios. Chargeoffs are funded through an increase in the provision for loan losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2012

Net income for the three months ended March 31, 2012, totaled $305, as compared to $(1,510) for the same period in 2011. The increase of $1,815 for the period is associated directly with lower provisions for loan losses as compared to same period prior year.

Net interest income increased $190 for the three months ended March 31, 2012, as compared to the same period in 2011. 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 and decrease interest expense associated with lower loan assets. Net interest income for the three months ending March 31, 2012 is shown in the following table:

	For the three months ended March 30,			
Net Interest Income	**2012**	**2011**	**$ change**	**% change**
Investment Interest Income	$ 270	$ 221	$ 49	22.17 %
Loan Interest Income	4,030	4,260	(230)	(5.40)
Total Interest Income	4,300	4,481	(181)	(4.04)
Total Interest Expense	1,668	2,039	(371)	(18.20)
Net Interest Income	$ 2,632	$ 2,442	$ 190	7.78 %

Provisions for loan losses for the quarter totaled $990, as compared to $3,138 for the same period last year. The decrease in provisions was due mostly to the decrease in specific reserves which is a result of lower nonaccrual loan volume. Provisions for loan losses for the three months ending March 31, 2012 are shown in the following table:

	For the three months ended March 30,			
Provisions for Loan Losses	**2012**	**2011**	**$ change**	**% change**
General Reserves	$ 185	$ 501	$ (316)	(63.07)%
Specific Reserves	805	2,637	(1,832)	(69.47)
Total Provisions/(Reversals)	$ 990	$ 3,138	$ (2,148)	(68.45)%

Noninterest income for the three months ended March 31, 2012, totaled $824, as compared to $1,291 for the same period of 2011, a decrease of $467. The decrease is primarily the result of decreased Equity in Earnings of other Farm Credit Institutions. 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 lower patronage from the CPP was a result of increased loan provisions and losses on Other Property Owned (OPO) for the pool. The lower patronage from the other pools was a result of lower loan asset volumes within the pools. Losses on OPO have decreased due to decreased assets in OPO from the prior period as well as a decrease in OPO asset write-downs. 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 March 31, 2012 is shown in the following table:

	For the three months ended March 30,			
Noninterest Income	**2012**	**2011**	**$ change**	**% change**
Loan fees	$ 65	$ 21	$ 44	209.52 %
Fees for financially related services	2	33	(31)	(93.94)
Equity in earnings from other Farm Credit Institutions	1,030	1,690	(660)	(39.05)
Gains (losses) on other property owned, net	(361)	(483)	122	25.26
Gains (losses) on sales of rural home loans, net	43	19	24	126.32
Insurance Fund refund	–	–		
Other noninterest income	45	11	34	309.09
Total noninterest income	$ 824	$ 1,291	$ (467)	(36.17) %

Noninterest expense for the three months ended March 31, 2012, increased $56 compared to the same period of 2011. The primary reason for the increase was the increase in Salary and Employee Benefits and Other Operating Expenses as compared to prior period. During the first quarter of 2012, the Association has been able to achieve full employment as compared to the first quarter of 2011. As a result, Salary and Employee Benefits are up 4.63% from same period prior year. Noninterest expense for the three months ending March 31, 2012 is shown in the following table:

	For the three months ended March 30,			
Noninterest Expense	**2012**	**2011**	**$ change**	**% change**
Salary and employee benefits	$ 1,491	$ 1,425	$ 66	4.63 %
Occupancy and equipment	159	177	(18)	(10.17)
Insurance Fund Premium	39	52	(13)	(25.00)
Other operating expenses	472	451	21	4.66
Total noninterest expense	$ 2,161	$ 2,105	$ 56	2.66 %

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 March 31, 2012, was $323,030 as compared to $329,555 at December 31, 2011. 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 March 31, 2012, increased to $72,077 from the December 31, 2011, total of $71,802. The increase is primarily attributed to the increase in unallocated surplus resulting from the increased net income.

Total capital stock and participation certificates were $1,001 on March 31, 2012, compared to $1,026 on December 31, 2011. 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 March 31, 2012, the Association's total surplus ratio and core surplus ratio were 17.97 percent and 15.55 percent, respectively, and the permanent capital ratio was 18.64 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 three months ended March 31, 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 1-800-533-2773, or writing D. Scott Fontenot, CFO, Farm Credit of Central Florida, ACA, P. O. Box 8009, Lakeland, FL 33802, or accessing the website, *www.farmcreditcfl.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

(dollars in thousands)	March 31, 2012	December 31, 2011
	(unaudited)	(audited)
Assets		
Cash	$ 89	$ 512
Investment securities:		
Held to maturity (fair value of $52,682 and $48,038 respectively)	51,916	47,285
Loans	336,560	342,346
Less: allowance for loan losses	10,479	10,158
Net loans	326,081	332,188
Accrued interest receivable	1,726	1,614
Investments in other Farm Credit institutions	11,323	11,665
Premises and equipment, net	713	747
Other property owned	2,783	3,394
Due from AgFirst Farm Credit Bank	1,021	4,643
Other assets	4,150	4,364
Total assets	$ 399,802	$ 406,412
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 323,030	$ 329,555
Accrued interest payable	551	574
Patronage refunds payable	25	26
Other liabilities	4,119	4,455
Total liabilities	327,725	334,610
Commitments and contingencies		
Members' Equity		
Protected borrower stock	2	6
Capital stock and participation certificates	999	1,020
Retained earnings		
Allocated	33,183	33,183
Unallocated	37,891	37,586
Accumulated other comprehensive income	2	7
Total members' equity	72,077	71,802
Total liabilities and members' equity	$ 399,802	$ 406,412

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

Farm Credit Of Central Florida, ACA

Consolidated Statements of Operations

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2012	2011
Interest Income		
Investment securities	$ 270	$ 221
Loans	4,030	4,260
Total interest income	4,300	4,481
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	1,668	2,039
Net interest income	2,632	2,442
Provision for loan losses	990	3,138
Net interest income (loss) after provision for loan losses	1,642	(696)
Noninterest Income		
Loan fees	65	21
Fees for financially related services	2	33
Patronage refunds from other Farm Credit institutions	1,030	1,690
Gains (losses) on other property owned, net	(361)	(483)
Gains (losses) on sales of rural home loans, net	43	19
Other noninterest income	45	11
Total noninterest income	824	1,291
Noninterest Expense		
Salaries and employee benefits	1,491	1,425
Occupancy and equipment	159	177
Insurance Fund premiums	39	52
Other operating expenses	472	451
Total noninterest expense	2,161	2,105
Net income (loss)	$ 305	$ (1,510)

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

Farm Credit Of Central Florida, ACA

Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2012	2011
Net income (loss)	$ 305	$ (1,510)
Other comprehensive income net of tax		
Employee benefit plans adjustments	(5)	(4)
Comprehensive income (loss)	$ 300	$ (1,514)

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 Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2010	$ 19	$ 1,110	$ 33,183	$ 43,153	$ 19	$ 77,484
Comprehensive income (loss)				(1,510)	(4)	(1,514)
Protected borrower stock retired	(10)					(10)
Capital stock/participation certificates issued/(retired), net		(32)				(32)
Balance at March 31, 2011	$ 9	$ 1,078	$ 33,183	$ 41,643	$ 15	$ 75,928
Balance at December 31, 2011	$ 6	$ 1,020	$ 33,183	$ 37,586	$ 7	$ 71,802
Comprehensive income				305	(5)	300
Protected borrower stock retired	(4)					(4)
Capital stock/participation certificates issued/(retired), net		(21)				(21)
Balance at March 31, 2012	$ 2	$ 999	$ 33,183	$ 37,891	$ 2	$ 72,077

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

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, 2011, are contained in the 2011 Annual Report to Shareholders. These unaudited first 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 three months ended March 31, 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 March 31, 2012, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

Recently Issued Accounting Pronouncements

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

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The adoption of this guidance did not impact the Association's financial condition or results of operations, but resulted in additional disclosures.

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

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

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

NOTE 2 — INVESTMENT SECURITIES

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

	March 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset-backed securities	$ 51,916	$ 834	$ (68)	$ 52,682	1.99%

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset-backed securities	$ 47,285	$ 782	$ (29)	$ 48,038	2.01%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities held-to-maturity at March 31, 2012 follows:

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	1,019	1,010	2.44
After five years through ten years	25,591	26,035	1.74
After ten years	25,306	25,637	2.22
Total	$ 51,916	$ 52,682	1.99%

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 March 31, 2012 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 March 31, 2012 and December 31, 2011.

	March 31, 2012			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ 2,128	$ (34)	$ 812	$ (34)

	December 31, 2011			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ –	$ –	$ 853	$ (29)

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 at period end were as follows:

	March 31, 2012	December 31, 2011
Real estate mortgage	$ 129,207	$ 130,026
Production and intermediate-term	154,087	158,080
Agribusiness		
Loans to cooperatives	11,947	14,575
Processing and marketing	7,256	5,634
Farm-related business	13,771	13,441
Total agribusiness	32,974	33,650
Energy	2,736	2,736
Rural residential real estate	17,556	17,854
Total Loans	$ 336,560	$ 342,346

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

	March 31, 2012							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 61,420	$ –	$ –	$ –	$ –	$ –	$ 61,420
Production and intermediate-term	20,416	155,530	–	–	–	–	20,416	155,530
Agribusiness								
Loans to cooperatives	230	2,644	–	–	–	–	230	2,644
Processing and marketing	213	33,564	–	–	–	–	213	33,564
Farm-related business	–	2,710	–	–	–	–	–	2,710
Total agribusiness	443	38,918	–	–	–	–	443	38,918
Energy	2,736	–	–	–	–	–	2,736	–
Total	$ 23,595	$ 255,868	$ –	$ –	$ –	$ –	$ 23,595	$ 255,868

	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	$ –	$ 67,075	$ –	$ –	$ –	$ –	$ –	$ 67,075
Production and intermediate-term	19,680	237,464	–	–	–	–	19,680	237,464
Agribusiness								
Loans to cooperatives	205	8,196	–	–	–	–	205	8,196
Processing and marketing	282	3,084	–	–	–	–	282	3,084
Farm-related business	–	2,705	–	–	–	–	–	2,705
Total agribusiness	487	13,985	–	–	–	–	487	13,985
Energy	2,736	–	–	–	–	–	2,736	–
Total	$ 22,903	$ 318,524	$ –	$ –	$ –	$ –	$ 22,903	$ 318,524

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at March 31, 2012 and indicates that approximately 22.14 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	$ 10,292	$ 47,385	$ 71,530	$ 129,207
Production and intermediate-term	55,191	70,049	28,847	154,087
Agribusiness				
Loans to cooperatives	658	5,493	5,796	11,947
Processing and marketing	2,688	668	3,900	7,256
Farm-related business	1,485	4,358	7,928	13,771
Total agribusiness	4,831	10,519	17,624	32,974
Energy	2,736	–	–	2,736
Rural residential real estate	1,466	5,866	10,224	17,556
Total Loans	$ 74,516	$ 133,819	$ 128,225	$ 336,560

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

	March 31, 2012	December 31, 2011
Real estate mortgage:		
Acceptable	79.04%	78.37%
OAEM	5.45	5.88
Substandard/doubtful/loss	15.51	15.75
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	72.96%	72.27%
OAEM	13.85	12.93
Substandard/doubtful/loss	13.19	14.80
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	96.27%	96.92%
OAEM	3.73	3.08
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2012	December 31, 2011
Farm-related business:		
Acceptable	99.99%	99.98%
OAEM	0.01	0.01
Substandard/doubtful/loss	–	0.01
	100.00%	100.00%
Total agribusiness:		
Acceptable	98.64%	98.66%
OAEM	1.36	1.34
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	71.77%	71.15%
OAEM	5.96	6.96
Substandard/doubtful/loss	22.27	21.89
	100.00%	100.00%
Total Loans:		
Acceptable	77.97%	77.35%
OAEM	8.87	8.69
Substandard/doubtful/loss	13.16	13.96
	100.00%	100.00%

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

	March 31, 2012					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,302	$ 5,057	$ 6,359	123,415	$ 129,774	$ –
Production and intermediate-term	1,389	6,440	7,829	146,825	154,654	–
Agribusiness						
Loans to cooperatives	–	–	–	12,034	12,034	–
Processing and marketing	–	–	–	7,290	7,290	–
Farm-related business	–	–	–	13,831	13,831	–
Total agribusiness	–	–	–	33,155	33,155	–
Energy and water/waste disposal	–	–	–	2,736	2,736	–
Rural residential real estate	1,744	384	2,128	15,523	17,651	–
Total	$ 4,435	$ 11,881	$ 16,316	$ 321,654	$ 337,970	$ –

	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	$ 1,019	$ 6,141	$ 7,160	$ 123,397	$ 130,557	$ –
Production and intermediate-term	171	6,273	6,444	152,172	158,616	–
Agribusiness						
Loans to cooperatives	–	–	–	14,666	14,666	–
Processing and marketing	–	–	–	5,662	5,662	–
Farm-related business	–	–	–	13,517	13,517	–
Total agribusiness	–	–	–	33,845	33,845	–
Energy and water/waste disposal	–	–	–	2,736	2,736	–
Rural residential real estate	1,114	473	1,587	16,343	17,930	–
Total	$ 2,304	$ 12,887	$ 15,191	$ 328,493	$ 343,684	$ –

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

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

	March 31, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 7,679	$ 8,929
Production and intermediate-term	8,356	8,377
Agribusiness		
Loans to cooperatives	–	–
Farm-related business	–	–
Total agribusiness	–	–
Rural residential real estate	1,398	1,509
Total nonaccrual loans	$ 17,433	$ 18,815
Accruing restructured loans:		
Real estate mortgage	$ 6,288	$ 4,863
Production and intermediate-term	6,210	6,319
Agribusiness		
Loans to cooperatives	–	–
Farm-related business	–	–
Total agribusiness	–	–
Rural residential real estate	781	783
Total accruing restructured loans	$ 13,279	$ 11,965
Accruing loans 90 days or more past due:		
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	$ –	$ –
Total nonperforming loans	$ 30,712	$ 30,780
Other property owned	2,783	3,394
Total nonperforming assets	$ 33,495	$ 34,174
Nonaccrual loans as a percentage of total loans	5.18%	5.50%
Nonperforming assets as a percentage of total loans and other property owned	9.87%	9.88%
Nonperforming assets as a percentage of capital	46.47%	47.59%

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

	March 31, 2012	December 31, 2011
Impaired nonaccrual loans:		
Current as to principal and interest	$ 2,293	$ 4,365
Past due	15,140	14,450
Total impaired nonaccrual loans	17,433	18,815
Impaired accrual loans:		
Restructured	13,279	11,965
90 days or more past due	–	–
Total impaired accrual loans	13,279	11,965
Total impaired loans	$ 30,712	$ 30,780

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

	March 31, 2012			Quarter Ended March 31, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 6,244	$ 7,003	$ 2,196	$ 6,245	$ 12
Production and intermediate-term	5,339	7,968	1,681	5,340	11
Rural residential real estate	1,383	1,915	744	1,383	3
Total	$ 12,966	$ 16,886	$ 4,621	$ 12,968	$ 26
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 7,723	$ 8,340	$ –	$ 7,724	$ 16
Production and intermediate-term	9,227	15,093	–	9,229	19
Rural residential real estate	796	854	–	796	1
Total	$ 17,746	$ 24,287	$ –	$ 17,749	$ 36
Total impaired loans:					
Real estate mortgage	$ 13,967	$ 15,343	$ 2,196	$ 13,969	$ 28
Production and intermediate-term	14,566	23,061	1,681	14,569	30
Rural residential real estate	2,179	2,769	744	2,179	4
Total	$ 30,712	$ 41,173	$ 4,621	$ 30,717	$ 62

	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	$ 6,845	$ 7,958	$ 2,543	$ 5,405	$ 60
Production and intermediate-term	4,960	6,857	1,239	3,916	44
Agribusiness					
Farm-related business	–	–	–	–	–
Total agribusiness	–	–	–	–	–
Rural residential real estate	1,492	2,173	703	1,178	13
Total	$ 13,297	$ 16,988	$ 4,485	$ 10,499	$ 117
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 6,947	$ 7,172	$ –	$ 5,484	$ 61
Production and intermediate-term	9,736	16,070	–	7,688	85
Agribusiness					
Farm-related business	–	–	–	–	–
Total agribusiness	–	–	–	–	–
Rural residential real estate	800	857	–	631	7
Total	$ 17,483	$ 24,099	$ –	$ 13,803	$ 153
Total impaired loans:					
Real estate mortgage	$ 13,792	$ 15,130	$ 2,543	$ 10,889	$ 121
Production and intermediate-term	14,696	22,927	1,239	11,604	129
Agribusiness					
Farm-related business	–	–	–	–	–
Total agribusiness	–	–	–	–	–
Rural residential real estate	2,292	3,030	703	1,809	20
Total	$ 30,780	$ 41,087	$ 4,485	$ 24,302	$ 270

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at March 31, 2012.

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

March 31, 2012	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:						
Balance at December 31, 2011	$ 4,319	$ 4,793	$ 38	$ 4	$ 1,004	$ 10,158
Charge-offs	(395)	(311)	–	–	(11)	(717)
Recoveries	5	–	–	–	43	48
Provision for loan losses	241	698	(30)	–	81	990
Balance at March 31, 2012	$ 4,170	$ 5,180	$ 8	$ 4	$ 1,117	$ 10,479
March 31, 2012 allowance ending balance:						
Loans individually evaluated for impairment	$ 2,196	$ 1,681	$ –	$ –	$ 744	$ 4,621
Loans collectively evaluated for impairment	$ 1,974	$ 3,499	$ 8	$ 4	$ 373	$ 5,858
Recorded investment in loans outstanding:						
Ending Balance at March 31, 2012	$ 129,774	$ 154,654	$ 33,155	$ 2,736	$ 17,651	$ 337,970
March 31, 2012 recorded investment ending balance:						
Loans individually evaluated for impairment	$ 8,179	$ 8,307	$ –	$ –	$ 1,398	$ 17,884
Loans collectively evaluated for impairment	$ 121,595	$ 146,347	$ 33,155	$ 2,736	$ 16,253	$ 320,086

December 31, 2011	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:						
Balance at December 31, 2010	$ 2,266	$ 1,585	$ 59	$ 4	$ 512	$ 4,426
Charge-offs	(883)	(2,831)	–	–	(1,009)	(4,723)
Recoveries	17	205	–	–	31	253
Provision for loan losses	2,919	5,834	(21)	–	1,470	10,202
Balance at December 31, 2011	$ 4,319	$ 4,793	$ 38	$ 4	$ 1,004	$ 10,158
December 31, 2011 allowance ending balance:						
Loans individually evaluated for impairment	$ 2,543	$ 1,239	$ –	$ –	$ 703	$ 4,485
Loans collectively evaluated for impairment	$ 1,776	$ 3,554	$ 38	$ 4	$ 301	$ 5,673
Recorded investment in loans outstanding:						
Ending Balance at December 31, 2011	$ 130,557	$ 158,616	$ 33,845	$ 2,736	$ 17,930	$ 343,684
December 31, 2011 recorded investment ending balance:						
Loans individually evaluated for impairment	$ 9,030	$ 8,276	$ –	$ –	$ 1,509	$ 18,815
Loans collectively evaluated for impairment	$ 121,527	$ 150,340	$ 33,845	$ 2,736	$ 16,421	$ 324,869

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 March 31, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 1,540	$ –	$ 1,540
Production and intermediate-term	–	332	–	332
Total	$ –	$ 1,872	$ –	$ 1,872

	Three months ended March 31, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 1,544	$ –	$ 1,544	$ 6	$ –
Production and intermediate-term	–	332	–	332	3	–
Total	$ –	$ 1,876	$ –	$ 1,876	$ 9	$ –

	Three months ended March 31, 2011			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 1,675	$ –	$ 1,675
Production and intermediate-term	–	9,508	–	9,508
Total	$ –	$ 11,183	$ –	$ 11,183

	Three months ended March 31, 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	$ –	$ 1,675	$ –	$ 1,675	$ 387	$ (5)
Production and intermediate-term	–	9,508	–	9,508	238	(227)
Total	$ –	$ 11,183	$ –	$ 11,183	$ 625	$ (232)

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

TDRs outstanding at period end totaled $17,074, of which $3,795 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 three months ended March 30, 2012	For the three months ended March 30, 2011
Pension	$ 285	$ 280
401(k)	38	37
Other postretirement benefits	39	51
Total	$ 362	$ 368

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

	Actual YTD Through 3/31/12	Projected Contributions For Remainder of 2012	Projected Total Contributions 2012
Pension	$ 5	$ 900	$ 905
Other postretirement benefits	42	121	163
Total	$ 47	$ 1,021	$ 1,068

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 – NOTES PAYABLE TO AGFIRST FARM CREDIT BANK

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants. The Association failed to meet its earnings covenant under the GFA at December 31, 2011. The default allows the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank approved a waiver of the default and has allowed the Association to continue to operate under a special credit agreement (SCA). At March 31, 2012, the Association was in compliance with the earnings covenant under the SCA, which expires December 31, 2012.

NOTE 6 – 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 3.16 percent of the issued stock of the Bank as of March 31, 2012 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.1 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $123 million for the first three months of 2012. In addition, the Association has an investment of $308 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 March 31, 2012 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. 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 March 31, 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 March 31, 2012 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

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

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

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

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

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

Information about Sensitivity to Changes in Significant Unobservable Inputs

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

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

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

	Standby Letters Of Credit
Balance at January 1, 2012	$ 18
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income (loss)	–
Purchases	–
Sales	–
Issuances	–
Settlements	(6)
Transfers in and/or out of level 3	–
Balance at March 31, 2012	$ 12

	Standby Letters Of Credit
Balance at January 1, 2011	$ 61
Total gains or (losses) realized/unrealized:	
Included in earnings	
Included in other comprehensive income (loss)	–
Purchases	–
Sales	–
Issuances	–
Settlements	(10)
Transfers in and/or out of level 3	–
Balance at March 31, 2011	$ 51

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

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

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

Information about Other Financial Instrument Fair Value Measurements

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

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

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

	March 31, 2012					
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Fair Value Effects On Comprehensive Income**
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 137	$ 137	$ –	$ –	$ 137	$ 9
Recurring Assets	$ 137	$ 137	$ –	$ –	$ 137	$ 9
Liabilities:						
Standby letters of credit	$ 12	$ –	$ –	$ 12	$ 12	$ –
Recurring Liabilities	$ 12	$ –	$ –	$ 12	$ 12	$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 26,090	$ –	$ –	$ 26,090	$ 26,090	$ (805)
Other property owned	2,783	–	–	3,119	3,119	(366)
Nonrecurring Assets	$ 28,873	$ –	$ –	$ 29,209	$ 29,209	$ (1,171)
Other Financial Instruments						
Assets:						
Cash	$ 89	$ 89	$ –	$ –	$ 89	
Investment securities, held-to-maturity	51,916	–	52,682	–	52,682	
Loans	299,991	–	–	301,609	301,609	
Accrued interest receivable	1,726	–	1,726	–	1,726	
Other Assets	$ 353,722	$ 89	$ 54,408	$ 301,609	$ 356,106	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 323,030	$ –	$ –	$ 323,650	$ 323,650	
Accrued interest payable	551	–	551	–	551	
Other Liabilities	$ 323,581	$ –	$ 551	$ 323,650	$ 324,201	

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	$ 133	$ –	$ –	$ 133
Total Assets	$ 133	$ –	$ –	$ 133
Liabilities:				
Standby letters of credit	$ –	$ –	$ 18	$ 18
Total Liabilities	$ –	$ –	$ 18	$ 18

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	$ –	$ –	$ 8,812	$ 8,812	$ (6,276)
Other property owned	$ –	$ –	$ 3,604	$ 3,604	$ (2,908)

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	$ 512	$ 512
Loans, net of allowance	$ 332,188	$ 334,910
Accrued interest receivable	$ 1,614	$ 1,614
Investment securities	$ 47,285	$ 48,038
Assets held in trust funds	$ 133	$ 133
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 330,129	$ 332,424

NOTE 7 - ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Employee Benefit Plans
Balance at December 31, 2010	$ 19
Other comprehensive income	(4)
Balance at March 31, 2011	$ 15
Balance at December 31, 2011	$ 7
Other comprehensive income	(5)
Balance at March 31, 2012	$ 2

	For the three months ended March 31, 2012	2011
Other Comprehensive Income and Reclassification Amounts:		
Net gain (loss) during period	$ (5)	$ (4)
Defined benefit post retirement plans, net	$ (5)	$ (4)

NOTE 8 – SUBSEQUENT EVENTS

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

In April 2012, the Association accrued $379 thousand due to an insurance premium refund from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. This payment is nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.