Ag Credit Agricultural Credit Association

SECOND QUARTER 2012

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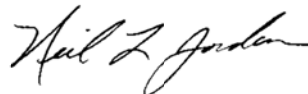
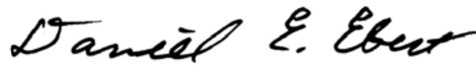
CERTIFICATION

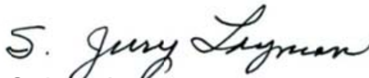
The undersigned certify that we have reviewed the June 30, 2012 quarterly report of Ag Credit Agricultural Credit Association, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements,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



Neil L. Jordan
Chief Executive Officer



Daniel E. Ebert
Chief Financial Officer



S. Jerry Layman
Chairman of the Board

August 8, 2012

AgCredit Agricultural Credit Association

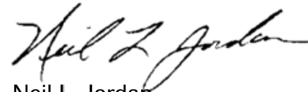
Report on Internal Control Over Financial Reporting

The Association's principal executives and 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 executives and financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

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

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

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



Neil L. Jordan
Chief Executive Officer

Daniel E. Ebert
Chief Financial Officer

August 8, 2012

Ag Credit Agricultural Credit Association

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Ag Credit Agricultural Credit Association (Association) for the six months ended June 30, 2012. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2011 Annual Report of the Association. The accompanying consolidated financial statements (financial statements) were prepared under the oversight of the Audit Committee of the Board of Directors, which includes Paul N. Aley and Scott A. Schroeder. The results for the first six months of 2012 are not necessarily indicative of results to be expected for the year.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities, including corn, soybeans, general cash grain crops, livestock and horticultural products. These commodities totaled approximately $962,403 or 78.34 percent of the loan portfolio as of June 30, 2012. The Association recognizes the commodity concentration risk exceeds normally accepted industry standards. This risk, along with the risk associated with large loans, is reduced by the range of diversity of enterprises in the Association's territory, utilization of crop insurance, and the use of FSA, USDA, Business and Industry and Farmer Mac loan guarantees. As of June 30, 2012 the Association had $427,793 of guaranteed loan volume, which is 34.82 percent of loans as compared to $370,829 of guaranteed volume or 32.83 percent of the portfolio at June 30, 2011. Loan guarantees reduce the potential of loss in the Association's loan portfolio and help to leverage the Association's capital.

Gross loan volume of the Association as of June 30, 2012 was $1,228,460, a decrease of $21,615 or 1.73 percent as compared to $1,250,075 at December 31, 2011. The 1.73 percent decrease in loan volume is related to the normal, seasonal reduction in production and intermediate-term volume and a slight reduction in Agribusiness loan volume. These reductions were offset in part by increased rural residential real estate and real estate mortgage loan volume. From June 30, 2011 to June 30, 2012 volume increased by $98,898 or 8.76 percent.

Net loans outstanding at June 30, 2012 were $1,217,611 as compared to $1,239,158 at December 31, 2011. Net loans accounted for 95.79 percent of total assets at June 30, 2012 as compared to 95.5 percent at December 31, 2011.

The following table summarizes the Association's risk assets (accruing volume includes accrued interest receivable):

	6/30/12	12/31/11
Nonaccrual loans	$ 32,038	$ 4,929
Restructured loans	37	39
Accruing loans 90 days or more past due	–	–
Total high risk loans	32,075	4,968
Other property owned	40	40
Total high-risk assets	$ 32,115	$ 5,008
Ratios:		
Nonaccrual loans to total loans	2.61%	0.39%
High-risk assets to total assets	2.53%	0.39%

High risk assets increased during the first six months of 2012 primarily as a result of transferring loans related to a large commercial entity to nonaccrual status.

There is an inherent risk in the extension of any type of credit, and, accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio.

General portfolio credit quality declined slightly during the first six months of 2012 but remains strong. Credit administration is satisfactory. During the first six months of 2012 the Association recorded a $68 charge off, a $1 recovery and did not record a provision for loan losses. For the same period of 2011, the Association recorded a reduction in the allowance of $376 as a result of charge offs totaling $1,066, recoveries of $17 and a $673 provision for loan losses. The allowance for loan losses represented 0.88 percent and 0.87 percent of loans at June 30, 2012 and December 31, 2011, respectively.

RESULTS OF OPERATIONS

For the three months ending June 30, 2012

Net income for the three months ended June 30, 2012 (Q2 2012) was $9,397, an increase of $2,208 or 30.71 percent when compared to the net income of $7,189 for the same period in 2011 (Q2 2011). Major changes in the components of net income when comparing Q2 2012 to Q2 2011 are identified as follows:

- Net interest income increased by $688 or 8.52 percent. The increase resulted from earnings on increased loan volume and increased earnings spreads on loans from the loan re-pricing activities of the past twelve months and a slight increase in earnings on the Association's own funds in loans.

- No provision for loan losses was recorded in Q2 2012 as compared to a $522 provision for loan loss in Q2 2011.

- Noninterest income increased by $1,163 or 42.14 percent for the following reasons:

  During Q2 2012, the Association recorded a $972 refund from the Farm Credit Insurance Corporation (FCSIC), which insures the System's debt obligations. This refund is non-recurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. No such income was recorded for Q2 2011.

  Equity in earnings of AgFirst Farm Credit Bank (the Bank) increased by $215 as a result of the increase in the Association's average note payable balance with the Bank and an increase in patronage on participations sold to the Bank. The average note payable balance increased as a result of the year-to-year increase in loan volume previously discussed. Average participations sold to the Bank increased for Q2 2012 when compared to Q2 2011.

  Loan fees increased by $17 primarily due to an increase in loan servicing fees related to loan re-pricing activity during Q2 2012. Fees for financially related services decreased by $30 due to lower multi-peril crop insurance income.

- Noninterest expense increased by $157 or 5.09 percent primarily due to:

  Salary and benefits expense increased by $134 or 6.59 percent due to increased expenses related to scheduled salary increases, additional employees, salary related benefits and health insurance premiums offset in part by lower post retirement expenses and increased deferred loan origination costs. Insurance premium expenses decreased by $14 due to reduced premium rates and increased guaranteed loan volume offsetting increased loan volume. Other operating expenses increased by $26 primarily as a result of higher director, professional services, communication, printing and office supplies and miscellaneous insurance expenses. These were offset in part by lower expenses for publications, public and member relations, training, and other miscellaneous items.

- The provision for income taxes was $47 and $39 for Q2 2012 and Q2 2011, respectively.

For the six months ending June 30, 2012

Net income for the six months ended June 30, 2012 (YTD 2012) was $16,816, which is an increase of $2,964 or 21.40 percent when compared to the net income of $13,852 for the same period in 2011 (YTD 2011). Major changes in the components of net income when comparing YTD 2012 to YTD 2011 are identified as follows:

- Net interest income increased by $1,402 or 8.73 percent. The increase is a result of the same reasons previously discussed.

- The risks identified in the portfolio at June 30, 2012 resulted in no provision for loan losses entry for YTD 2012 compared to a $673 provisions for loan losses for YTD 2011. The net change when comparing the two YTD periods was a $673 increase in income.

- Noninterest income increased by $1,499 or 31.11 percent due to the $972 FCSIC refund, the equity in earnings of AgFirst Farm Credit Bank increase of $378 and the $155 increase in loan fees for the reasons previously discussed.

- Noninterest expense increased by $602 or 9.58 percent. Salary and benefits expense increased by $221, insurance premium expenses decreased by $28, guarantee fees increased by $301 and other operating expenses increase by $92 for the reasons previously discussed.

- The provision for income taxes was $86 and $78 for YTD 2012 and YTD 2011, respectively.

The following table shows the key results of operations ratios for the six months ended June 30, 2012 and June 30, 2011, respectively.

	6/30/12	6/30/11
Return on average assets	2.73%	2.40%
Return on average equity	17.29%	15.56%
Net interest margin	2.91%	2.86%
Members' equity to assets	16.10%	15.91%
Debt to members' equity (:1)	5.21	5.29

The changes in these ratios are directly related to the changes in income discussed in the Results of Operations section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Capital Resources section.

CAPITAL RESOURCES

Total members' equity totaled $204,658 at June 30, 2012 as compared to $187,439 at December 31, 2011 for an increase of $17,219 or 9.19 percent. The increase is due to year-to-date earnings, more Class A preferred stock and C Stock and Participation Certificates offset in part by the reduction in allocated equities.

FCA regulations require all Farm Credit institutions maintain a minimum permanent capital ratio of 7.0 percent and a total surplus and core surplus ratios equal to 3.5 percent. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus by a risk-adjusted asset base. At June 30, 2012, the Association's permanent capital, total surplus and core surplus ratios equaled 20.82 percent, 18.71 percent and 16.35 percent, respectively.

REGULATORY MATTERS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

Note: The Association obtains funding from AgFirst Farm Credit Bank (the Bank). The Association is materially affected and shareholder investment could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, *www.agfirst.com* or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202.

Copies of the Association's Quarterly and Annual Reports are available on the Association's website, www.agcredit.net, or may be obtained upon request free of charge by calling 1-800-837-3678, extension 1023, or writing Daniel Ebert, Chief Financial Officer, Ag Credit, ACA, 610 W Lytle Street, Fostoria, OH 44830. The Association prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

Ag Credit Agricultural Credit Association

Consolidated Balance Sheets

(dollars in thousands)	**June 30, 2012**	**December 31, 2011**
	(unaudited)	*(audited)*
Assets		
Cash	$ 2,031	$ 2,308
Investment securities:		
Held to maturity (fair value of $9,055 and $8,006 respectively)	8,356	7,277
Loans	1,228,460	1,250,075
Less: allowance for loan losses	10,849	10,917
Net loans	1,217,611	1,239,158
Accrued interest receivable	17,626	17,490
Investments in other Farm Credit institutions	17,037	17,037
Premises and equipment, net	3,525	2,389
Other property owned	40	40
Due from AgFirst Farm Credit Bank	4,284	10,091
Other assets	627	1,913
Total assets	$ 1,271,137	$ 1,297,703
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,055,393	$ 1,089,419
Accrued interest payable	2,134	2,371
Patronage refunds payable	61	8,049
Advanced conditional payments	1,720	451
Other liabilities	7,171	9,974
Total liabilities	1,066,479	1,110,264
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	18,254	17,577
Retained earnings		
Allocated	109,654	109,753
Unallocated	76,750	60,109
Total members' equity	204,658	187,439
Total liabilities and members' equity	$ 1,271,137	$ 1,297,703

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

Ag Credit Agricultural Credit Association

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Interest Income				
Investment securities	$ 124	$ 81	$ 235	$ 157
Loans	15,076	15,046	30,223	29,902
Total interest income	15,200	15,127	30,458	30,059
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,440	7,055	12,990	13,993
Net interest income	8,760	8,072	17,468	16,066
Provision for loan losses	–	522	–	673
Net interest income after provision for loan losses	8,760	7,550	17,468	15,393
Noninterest Income				
Loan fees	155	138	398	243
Fees for financially related services	33	63	80	80
Patronage refunds from other Farm Credit institutions	2,771	2,556	4,838	4,460
Gains (losses) on other property owned, net	(5)	–	(13)	3
Insurance Fund refunds	972	–	972	–
Other noninterest income (expense)	(3)	3	42	32
Total noninterest income	3,923	2,760	6,317	4,818
Noninterest Expense				
Salaries and employee benefits	2,167	2,033	4,331	4,110
Occupancy and equipment	192	189	391	375
Insurance Fund premiums	84	98	168	196
Guarantee fees	284	276	843	542
Other operating expenses	512	486	1,150	1,058
Total noninterest expense	3,239	3,082	6,883	6,281
Income before income taxes	9,444	7,228	16,902	13,930
Provision for income taxes	47	39	86	78
Net income (loss)	9,397	7,189	16,816	13,852
Other comprehensive income	–	–	–	–
Comprehensive income	$ 9,397	$ 7,189	$ 16,816	$ 13,852

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

Ag Credit Agricultural Credit Association

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2010	$ 17,114	$ 96,317	$ 58,651	$ 172,082
Comprehensive income			13,852	13,852
Capital stock/participation certificates issued/(retired), net	148			148
Dividends declared/paid			(149)	(149)
Retained earnings retired		(13)		(13)
Patronage distribution adjustment		59	(258)	(199)
Balance at June 30, 2011	$ 17,262	$ 96,363	$ 72,096	$ 185,721
Balance at December 31, 2011	$ 17,577	$ 109,753	$ 60,109	$ 187,439
Comprehensive income			16,816	16,816
Capital stock/participation certificates issued/(retired), net	677			677
Dividends declared/paid			(101)	(101)
Retained earnings retired		(30)		(30)
Patronage distribution adjustment		(69)	(74)	(143)
Balance at June 30, 2012	$ 18,254	$ 109,654	$ 76,750	$ 204,658

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2012 the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

Recently Issued Accounting Pronouncements

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

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

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

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

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

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

NOTE 2 — INVESTMENT SECURITIES

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

	June 30, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 8,356	$ 799	$ (100)	$ 9,055	5.56%

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 7,277	$ 754	$ (25)	$ 8,006	6.11%

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

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	8,356	9,055	5.56
Total	$ 8,356	$ 9,055	5.56%

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

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

	June 30, 2012			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission related Investments	$ 1,169	$ (100)	$ –	$ –

	December 31, 2011			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission related Investments	$ 2,772	$ (25)	$ –	$ –

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes.

Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment as the unrealized losses resulted primarily from non-credit related factors. The Association has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. The Association does not intend to sell these investments and it is not likely that the Association would be required to sell these investments before recovering its costs. No securities have been in an unrealized loss position greater than twelve months.

NOTE 3— LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	June 30, 2012	December 31, 2011
Real estate mortgage	$ 653,311	$ 643,170
Production and intermediate-term	417,520	470,988
Agribusiness		
Processing and marketing	27,801	27,806
Farm-related business	6,678	8,044
Total agribusiness	34,479	35,850
Rural residential real estate	121,007	98,762
Lease receivables	2,143	1,305
Total Loans	$ 1,228,460	$ 1,250,075

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

	June 30, 2012							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 8,922	$ –	$ –	$ –	$ –	$ –	$ 8,922
Production and intermediate-term	7,080	67,211	723	–	–	–	7,803	67,211
Agribusiness								
Processing and marketing	4,030	1,482	5,614	–	5,200	–	14,844	1,482
Total agribusiness	4,030	1,482	5,614	–	5,200	–	14,844	1,482
Total	$ 11,110	$ 77,615	$ 6,337	$ –	$ 5,200	$ –	$ 22,647	$ 77,615

	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	$ –	$ 6,983	$ –	$ –	$ –	$ –	$ –	$ 6,983
Production and intermediate-term	5,149	84,266	828	–	–	–	5,977	84,266
Agribusiness								
Processing and marketing	6,982	926	5,638	–	3,250	–	15,870	926
Farm-related business	829	–	–	–	–	–	829	–
Total agribusiness	7,811	926	5,638	–	3,250	–	16,699	926
Total	$ 12,960	$ 92,175	$ 6,466	$ –	$ 3,250	$ –	$ 22,676	$ 92,175

The following table presents the contractual maturity distribution of loans by loan type at June 30, 2012 and indicates that approximately 11.92 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	$ 9,085	$ 58,158	$ 586,068	$ 653,311
Production and intermediate-term	129,967	187,939	99,614	417,520
Agribusiness				
Processing and marketing	3,389	8,463	15,949	27,801
Farm-related business	2,881	2,470	1,327	6,678
Total agribusiness	6,270	10,933	17,276	34,479
Rural residential real estate	1,119	5,898	113,990	121,007
Lease receivables	22	2,121	–	2,143
Total loans	$ 146,463	$ 265,049	$ 816,948	$ 1,228,460

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.

	June 30, 2012	December 31, 2011
Real estate mortgage:		
Acceptable	96.13%	97.13%
OAEM	1.98	1.82
Substandard/doubtful/loss	1.89	1.05
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	90.13%	91.57%
OAEM	2.48	2.29
Substandard/doubtful/loss	7.39	6.14
	100.00%	100.00%
Agribusiness:		
Processing and marketing		
Acceptable	92.84%	90.04%
OAEM	7.16	7.74
Substandard/doubtful/loss	–	2.22
	100.00%	100.00%
Farm-related business		
Acceptable	92.58%	83.62%
OAEM	0.43	0.09
Substandard/doubtful/loss	6.99	16.29
	100.00%	100.00%

	June 30, 2012	December 31, 2011
Total agribusiness		
Acceptable	92.79%	88.60%
OAEM	5.85	6.02
Substandard/doubtful/loss	1.36	5.38
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.44%	98.69%
OAEM	0.70	0.54
Substandard/doubtful/loss	0.86	0.77
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	94.23%	94.92%
OAEM	2.13	2.01
Substandard/doubtful/loss	3.64	3.07
	100.00%	100.00%

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

	June 30, 2012					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,265	$ 703	$ 1,968	$ 662,398	$ 664,366	$ –
Production and intermediate-term	1,514	2,771	4,285	418,998	423,283	–
Agribusiness						
Processing and marketing	(29)	–	(29)	28,032	28,003	–
Farm-related business	21	–	21	6,718	6,739	–
Total agribusiness	(8)	–	(8)	34,750	34,742	–
Rural residential real estate	740	184	924	120,540	121,464	–
Lease receivables	–	–	–	2,143	2,143	–
Total	$ 3,511	$ 3,658	$ 7,169	$ 1,238,829	$ 1,245,998	$ –

	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	$ 1,182	$ –	$ 1,182	$ 652,838	$ 654,020	$ –
Production and intermediate-term	3,633	2,602	6,235	470,696	476,931	–
Agribusiness						
Processing and marketing	–	–	–	27,999	27,999	–
Farm-related business	–	488	488	7,599	8,087	–
Total agribusiness	–	488	488	35,598	36,086	–
Rural residential real estate	380	77	457	98,673	99,130	–
Lease receivables	–	–	–	1,305	1,305	–
Total	$ 5,195	$ 3,167	$ 8,362	$ 1,259,110	$ 1,267,472	$ –

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

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

	June 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 7,400	$ 346
Production and intermediate-term	23,973	3,047
Agribusiness		
Processing and marketing	(28)	921
Farm-related business	470	488
Total agribusiness	442	1,409
Rural residential real estate	223	127
Total nonaccrual loans	$ 32,038	$ 4,929
Accruing restructured loans:		
Real estate mortgage	$ 37	$ 39
Total accruing restructured loans	$ 37	$ 39
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ –
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 32,075	$ 4,968
Other property owned	40	40
Total nonperforming assets	$ 32,115	$ 5,008
Nonaccrual loans as a percentage of total loans	2.61%	0.39%
Nonperforming assets as a percentage of total loans and other property owned	2.61%	0.40%
Nonperforming assets as a percentage of capital	15.69%	2.67%

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

	June 30, 2012	December 31, 2011
Impaired nonaccrual loans:		
Current as to principal and interest	$ 28,278	$ 1,697
Past due	3,761	3,232
Total impaired nonaccrual loans	32,039	4,929
Impaired accrual loans:		
Restructured	37	39
90 days or more past due	–	–
Total impaired accrual loans	37	39
Total impaired loans	$ 32,076	$ 4,968

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

	June 30, 2012			Quarter Ended June 30, 2012		Six Months Ended June 30, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 125	$ 123	$ 47	$ 21	$ –	$ 22	$ –
Production and intermediate-term	17,611	17,717	5,634	2,944	7	3,033	26
Agribusiness							
Farm-related business	471	484	84	79	–	81	1
Total agribusiness	471	484	84	79	–	81	1
Rural residential real estate	38	52	19	6	–	6	–
Total	$ 18,245	$ 18,376	$ 5,784	$ 3,050	$ 7	$ 3,142	$ 27
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 7,312	$ 7,340	$ –	$ 1,222	$ 3	$ 1,259	$ 11
Production and intermediate-term	6,362	8,172	–	1,064	2	1,096	10
Agribusiness							
Processing and marketing	(29)	11	–	(5)	–	(5)	–
Farm-related business	–	2	–	–	–	–	–
Total agribusiness	(29)	13	–	(5)	–	(5)	–
Rural residential real estate	185	184	–	31	–	32	–
Total	$ 13,830	$ 15,709	$ –	$ 2,312	$ 5	$ 2,382	$ 21
Total impaired loans:							
Real estate mortgage	$ 7,437	$ 7,463	$ 47	$ 1,243	$ 3	$ 1,281	$ 11
Production and intermediate-term	23,973	25,889	5,634	4,008	9	4,129	36
Agribusiness							
Processing and marketing	(29)	11	–	(5)	–	(5)	–
Farm-related business	471	486	84	79	–	81	1
Total agribusiness	442	497	84	74	–	76	1
Rural residential real estate	223	236	19	37	–	38	–
Total	$ 32,075	$ 34,085	$ 5,784	$ 5,362	$ 12	$ 5,524	$ 48

	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:					
Production and intermediate-term	$ 2,590	$ 2,695	$ 595	$ 2,704	$ 30
Rural residential real estate	117	131	72	122	1
Total	$ 2,707	$ 2,826	$ 667	$ 2,826	$ 31
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 386	$ 444	$ –	$ 403	$ 5
Production and intermediate-term	457	2,211	–	477	5
Agribusiness					
Processing and marketing	921	943	–	962	11
Farm-related business	487	499	–	509	5
Total agribusiness	1,408	1,442	–	1,471	16
Rural residential real estate	10	34	–	10	–
Total	2,261	4,131	–	2,361	26
Total impaired loans:					
Real estate mortgage	$ 386	$ 444	$ –	$ 403	$ 5
Production and intermediate-term	3,047	4,906	595	3,181	35
Agribusiness					
Processing and marketing	921	943	–	962	11
Farm-related business	487	499	–	509	5
Total agribusiness	1,408	1,442	–	1,471	16
Rural residential real estate	127	165	72	132	1
Total	$ 4,968	$ 6,957	$ 667	$ 5,187	$ 57

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 June 30, 2012.

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Residential Real Estate	Lease Receivables	Total
Allowance for credit losses:						
Balance at March 31, 2012	$ 1,142	$ 8,363	$ 1,046	$ 336	$ 4	$ 10,891
Charge-offs	–	(42)	(1)	–	–	(43)
Recoveries	–	1	–	–	–	1
Provision for loan losses	(689)	921	(300)	64	4	–
Balance at June 30, 2012	$ 453	$ 9,243	$ 745	$ 400	$ 8	$ 10,849
Balance at December 31, 2011	$ 1,368	$ 8,261	$ 931	$ 353	$ 4	$ 10,917
Charge-offs	–	(42)	(1)	(26)	–	(69)
Recoveries	–	1	–	–	–	1
Provision for loan losses	(915)	1,023	(185)	73	4	–
Balance at June 30, 2012	$ 453	$ 9,243	$ 745	$ 400	$ 8	$ 10,849
Balance at March 31, 2011	$ 764	$ 6,520	$ 1,418	$ 309	$ 3	$ 9,014
Charge-offs	–	(925)	–	–	–	(925)
Recoveries	–	17	–	–	–	17
Provision for loan losses	11	136	368	7	–	522
Balance at June 30, 2011	$ 775	$ 5,748	$ 1,786	$ 316	$ 3	$ 8,628
Balance at December 31, 2010	$ 773	$ 6,626	$ 1,261	$ 341	$ 3	$ 9,004
Charge-offs	–	(1,066)	–	–	–	(1,066)
Recoveries	–	17	–	–	–	17
Provision for loan losses	2	171	525	(25)	–	673
Balance at June 30, 2011	$ 775	$ 5,748	$ 1,786	$ 316	$ 3	$ 8,628
Loans individually evaluated for impairment	$ 47	$ 5,634	$ 84	$ 19	$ –	$ 5,784
Loans collectively evaluated for impairment	406	3,609	661	381	8	5,065
Balance at June 30, 2012	$ 453	$ 9,243	$ 745	$ 400	$ 8	$ 10,849
Loans individually evaluated for impairment	$ –	$ 595	$ –	$ 72	$ –	$ 667
Loans collectively evaluated for impairment	1,368	7,666	931	281	4	10,250
Balance at December 31, 2011	$ 1,368	$ 8,261	$ 931	$ 353	$ 4	$ 10,917
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	$ 7,400	$ 23,973	$ 442	$ 223	$ –	$ 32,038
Loans collectively evaluated for impairment	656,966	399,310	34,300	121,241	2,143	1,213,960
Balance at June 30, 2012	$ 664,366	$ 423,283	$ 34,742	$ 121,464	$ 2,143	$ 1,245,998
Loans individually evaluated for impairment	$ 346	$ 3,047	$ 1,409	$ 127	$ –	$ 4,929
Loans collectively evaluated for impairment	653,674	473,884	34,677	99,003	1,305	1,262,543
Balance at December 31, 2011	$ 654,020	$ 476,931	$ 36,086	$ 99,130	$ 1,305	$ 1,267,472

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about activity that occurred during the period presented related to TDRs. The tables do not include purchased credit impaired loans. There were no TDRs that occurred during the three or six months ended June 30, 2012 or during the three months ended June 30, 2011.

	Six months ended June 30, 2011			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Production and intermediate-term	$ –	$ 2,515	$ –	$ 2,515
Total	$ –	$ 2,515	$ –	$ 2,515

	Six months ended June 30, 2011					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Production and intermediate-term	$ –	$ 2,515	$ –	$ 2,515	541	(900)
Total	$ –	$ 2,515	$ –	$ 2,515	$ 541	$ (900)

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 2012. Payment default is defined as a payment that was thirty days or more past due.

TDRs outstanding at period end totaled $172, of which $135 were in nonaccrual status.

NOTE 4 — EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30, 2012	2011
Pension	$ 655	$ 647
401(k)	178	155
Other postretirement benefits	135	164
Total	$ 968	$ 966

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

	Actual YTD Through 6/30/12	Projected Contributions For Remainder of 2012	Projected Total Contributions 2012
Pension	$ –	$ 1,412	$ 1,412
Other postretirement benefits	85	81	166
Total	$ 85	$ 1,493	$ 1,578

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

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

NOTE 5 — FAIR VALUE MEASUREMENT

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

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

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 4.94 percent of the issued stock of the Bank as of June 30, 2012 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.9 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $253 million for the first six months of 2012. In addition, the Association has an investment of $10 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 has no Level 1 assets or liabilities measured at fair value on a recurring basis at June 30, 2012. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

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

The carrying value of accrued interest approximates its fair value.

Level 3

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

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

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

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

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

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

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

Information about Sensitivity to Changes in Significant Unobservable Inputs

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

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

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

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

	Standby Letters Of Credit
Balance at January 1, 2011	$ 45
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income (loss)	–
Purchases	–
Sales	–
Issuances	–
Settlements	(18)
Transfers in and/or out of level 3	–
Balance at June 30, 2011	$ 27

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:

	June 30, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Comprehensive Income
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	$ –
Liabilities:						
Standby letters of credit	$ –	$ –	$ –	$ –	$ –	$ –
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 26,292	$ –	$ –	$ 26,291	$ 26,291	$ (5,184)
Other property owned	40	–	–	44	44	(5)
Nonrecurring Assets	$ 26,332	$ –	$ –	$ 26,335	$ 26,335	$ (5,189)
Other Financial Instruments						
Assets:						
Cash	$ 2,031	$ 2,031	$ –	$ –	$ 2,031	
Investment securities, held-to-maturity	8,356	–	–	9,055	9,055	
Loans	1,191,319	–	–	1,191,127	1,191,127	
Accrued interest receivable	17,626	–	17,626	–	17,626	
Other Assets	$ 1,219,332	$ 2,031	$ 17,626	$ 1,200,182	$ 1,219,839	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,055,393	$ –	$ –	$ 1,053,182	$ 1,053,182	
Accrued interest payable	2,134	–	2,134	–	2,134	
Other Liabilities	$ 1,057,527	$ –	$ 2,134	$ 1,053,182	$ 1,055,316	

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

	December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Liabilities:				
Standby letters of credit	$ –	$ –	$ 1	$ 1
Total Liabilities	$ –	$ –	$ 1	$ 1

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	$ –	$ –	$ 2,040	$ 2,040	$ (2,898)
Other property owned	$ –	$ –	$ 44	$ 44	$ –

The estimated fair values of the Association's financial instruments at December 31, 2011 are as follows:

	December 31, 2011	
	Carrying Amount	**Estimated Fair Value**
Financial assets:		
Cash	$ 2,308	$ 2,308
Loans, net of allowance	$ 1,239,158	$ 1,242,517
Accrued interest receivable	$ 17,490	$ 17,490
Investment securities	$ 7,277	$ 8,006
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 1,091,790	$ 1,095,212

NOTE 6 – SUBSEQUENT EVENTS

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