Ag Credit Agricultural Credit Association

THIRD QUARTER 2012

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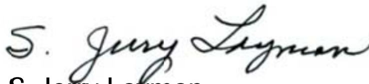
CERTIFICATION

The undersigned certify that we have reviewed the September 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

November 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 September 30, 2012. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

Neil L. Jordan
Chief Executive Officer

Daniel E. Ebert
Chief Financial Officer

November 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 nine months ended September 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, Keith L. Roberts, David M. Stott, Ph.D and Scott A. Schroeder. The results for the first nine 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 $1,001,021 or 78.17 percent of the loan portfolio as of September 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 September 30, 2012 the Association had $432,066 of guaranteed loan volume, which is 33.74 percent of loans as compared to $390,039 of guaranteed volume or 33.08 percent of the portfolio at September 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 September 30, 2012 was $1,280,493, an increase of $30,418 or 2.43 percent as compared to $1,250,075 at December 31, 2011. The increase in loan volume is related to an increase in both real estate mortgage loans and rural residential real estate loans. These increases were offset in part by a reduction in production and intermediate term (production and IT) loans and a smaller decrease in agri-business type loans. From September 30, 2011 to September 30, 2012 volume increased by $101,470 or 8.61 percent.

Net loans outstanding at September 30, 2012 were $1,264,679 as compared to $1,239,158 at December 31, 2011. Net loans accounted for 95.39 percent of total assets at September 30, 2012 as compared to 95.49 percent at December 31, 2011.

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

	9/30/12	12/31/11
Nonaccrual loans	$ 32,159	$ 4,929
Restructured loans	38	39
Accruing loans 90 days or more past due	–	–
Total high risk loans	32,197	4,968
Other property owned	40	40
Total high-risk assets	$ 32,237	$ 5,008
Ratios:		
Nonaccrual loans to total loans	2.51%	0.39%
High-risk assets to total assets	2.43%	0.39%

High risk assets increased during the first nine 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 nine months of 2012 but remains strong. Credit administration is satisfactory. During the first nine months of 2012 the Association recorded $448 of charge offs, $3 of recoveries and $5,342 of provision for loan losses. For the same period of 2011, the Association recorded an increase in the allowance of $2,079 as a result of charge offs totaling $1,150, recoveries of $17 and a $3,212 provision for loan losses. The allowance for loan losses represented 1.23 and 0.87 percent of loans at September 30, 2012 and December 31, 2011, respectively.

RESULTS OF OPERATIONS

For the three months ending September 30, 2012

Net income for the three months ended September 30, 2012 (Q3 2012) was $2,504, a decrease of $2,644 or 51.36 percent when compared to the net income of $5,148 for the same period in 2011 (Q3 2011). Major changes in the components of net income when comparing Q3 2012 to Q3 2011 are identified as follows:

- Provision for loan losses increased by $2,803 or 110.40% primarily related to specific reserves on a large commercial

loan relationship and two participation purchased loan relationships.

- Net interest income increased by $495 or 5.96 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 an increase in earnings on the Association's own funds in loans.

- Noninterest income increased by $58 or 2.41 percent for the following reasons:

  Equity in earnings of AgFirst Farm Credit Bank (the Bank) increased by $146 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 Q3 2012 when compared to Q3 2011.

  Loan fees decreased by $80 primarily due to reduced loan servicing fee and secondary mortgage market loan fee income. Fees for financially related services decreased by $7 due to lower multi-peril crop insurance income.

- Noninterest expense increased by $410 or 13.87 percent primarily due to:

  Salary and benefits expense increased by $378 due to increased expenses related to scheduled salary increases, additional employees, salary related benefits, higher incentive payments, increased annual bonus accrual and health insurance premiums offset in part by lower post retirement and HSA expenses and increased deferred loan origination costs. Occupancy and equipment expenses increased by $47 due to increased depreciation and maintenance expenses. Insurance premium expenses decreased by $4 due to reduced premium rates and increased guaranteed loan volume offsetting increased loan volume. Guarantee fees decreased due to lower initial USDA guarantee fees paid in Q3 2012 as compared to Q3 2011. Other operating expenses increased by $31 primarily as a result of higher director, professional services, communication, supervisory and liability related insurance expenses.

- The provision for income taxes was $52 and $68 for Q3 2012 and Q3 2011, respectively.

For the nine months ending September 30, 2012

Net income for the nine months ended September 30, 2012 (YTD 2012) was $19,320, which is an increase of $320 or 1.68 percent when compared to the net income of $19,000 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:

- Provision for loan losses increased by $2,130 or 66.31 percent for the reasons previously stated.

- Net interest income increased by $1,897 or 7.78 percent. The increase is a result of the significant loan re-pricing activity over the past twelve months and a slight increase in earnings on the Association's own funds in loans. The re-pricing activity reduced the Association's borrowing costs which increased income while also reducing our members' interest rates.

- Noninterest income increased by $1,557 or 21.56 percent due to the $972 FCSIC refund, the equity in earnings of AgFirst Farm Credit Bank increase of $524 and the $75 increase in loan fees.

  During the first nine months of 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 the same period of 2011.

  Equity in earnings of the Bank increased for the same reasons previously discussed.

  Loan fees increased due to an increase in loan servicing fees related to loan re-pricing activity for YTD 2012 as compared to YTD 2011.

- Noninterest expense increased by $1,012 or 10.96 percent. Salary and benefits expense increased by $599, occupancy and equipment increased by $63, guarantee fees increased by $259 and other operating expenses increased by $123 for YTD 2012 as compared to YTD 2011. These increases were offset in part by a $32 decrease in FCSIC insurance fund expenses.

  Salary and benefits as well as occupancy and equipment expenses increased for the reason previously stated. Guarantee fees increased due to more loan guarantees for YTD 2012 when compared to YTD 2011. Other operating expenses increased primarily due to higher expenses for interviews, retirements and liability related insurances. FCSIC insurance premium expenses decreased for the reasons previously discussed.

- The provision for income taxes was $138 and $146 for YTD 2012 and YTD 2011, respectively.

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

	9/30/12	9/30/11
Return on average assets	2.05%	2.17%
Return on average equity	12.95%	13.93%
Net interest margin	2.87%	2.86%
Members' equity to assets	15.16%	15.32%
Debt to members' equity (:1)	5.60	5.53

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 $200,951 at September 30, 2012 as compared to $187,439 at December 31, 2011 for an increase of $13,512 or 7.21 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. During September, 2012 the Association distributed 100 percent of the 2006 nonqualified allocated equities totaling $6,329.

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 September 30, 2012, the Association's permanent capital, total surplus and core surplus ratios equaled 20.64 percent, 18.60 percent and 15.86 percent, respectively.

REGULATORY MATTERS

For the nine months ended September 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)	September 30, 2012 *(unaudited)*	December 31, 2011 *(audited)*
Assets		
Cash	$ 1,541	$ 2,308
Investment securities:		
Held to maturity (fair value of $9,117 and $8,006 respectively)	8,303	7,277
Loans	1,280,493	1,250,075
Less: allowance for loan losses	15,814	10,917
Net loans	1,264,679	1,239,158
Accrued interest receivable	23,529	17,490
Investments in other Farm Credit institutions	17,037	17,037
Premises and equipment, net	3,918	2,389
Other property owned	40	40
Due from AgFirst Farm Credit Bank	6,268	10,091
Other assets	521	1,913
Total assets	$ 1,325,836	$ 1,297,703
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,106,693	$ 1,089,419
Accrued interest payable	2,133	2,371
Patronage refunds payable	269	8,049
Advanced conditional payments	2,539	451
Other liabilities	13,251	9,974
Total liabilities	1,124,885	1,110,264
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	18,421	17,577
Retained earnings		
Allocated	103,355	109,753
Unallocated	79,175	60,109
Total members' equity	200,951	187,439
Total liabilities and members' equity	$ 1,325,836	$ 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 September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Interest Income				
Investment securities	$ 115	$ 74	$ 350	$ 231
Loans	15,126	15,234	45,349	45,136
Total interest income	15,241	15,308	45,699	45,367
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,439	7,001	19,429	20,994
Net interest income	8,802	8,307	26,270	24,373
Provision for loan losses	5,342	2,539	5,342	3,212
Net interest income after provision for loan losses	3,460	5,768	20,928	21,161
Noninterest Income				
Loan fees	173	253	571	496
Fees for financially related services	163	170	243	250
Patronage refunds from other Farm Credit institutions	2,121	1,975	6,959	6,435
Gains (losses) on other property owned, net	—	—	(13)	3
Insurance Fund refunds	—	—	972	—
Other noninterest income	5	6	47	38
Total noninterest income	2,462	2,404	8,779	7,222
Noninterest Expense				
Salaries and employee benefits	2,205	1,827	6,536	5,937
Occupancy and equipment	201	154	592	529
Insurance Fund premiums	95	99	263	295
Guarantee fees	181	223	1,024	765
Other operating expenses	684	653	1,834	1,711
Total noninterest expense	3,366	2,956	10,249	9,237
Income before income taxes	2,556	5,216	19,458	19,146
Provision for income taxes	52	68	138	146
Net income	2,504	5,148	19,320	19,000
Other comprehensive income	—	—	—	—
Comprehensive income	$ 2,504	$ 5,148	$ 19,320	$ 19,000

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			19,000	19,000
Capital stock/participation certificates issued/(retired), net	(313)			(313)
Dividends declared/paid	223		(223)	—
Retained earnings retired		(3,529)		(3,529)
Patronage distribution adjustment		59	(258)	(199)
Balance at September 30, 2011	$ 17,024	$ 92,847	$ 77,170	$ 187,041
Balance at December 31, 2011	$ 17,577	$ 109,753	$ 60,109	$ 187,439
Comprehensive income			19,320	19,320
Capital stock/participation certificates issued/(retired), net	844			844
Dividends declared/paid			(149)	(149)
Retained earnings retired		(6,359)		(6,359)
Patronage distribution adjustment		(39)	(105)	(144)
Balance at September 30, 2012	$ 18,421	$ 103,355	$ 79,175	$ 200,951

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 third quarter 2012 consolidated financial statements should be read in conjunction with the 2011 Annual Report to Shareholders.

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

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

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

Recently Issued Accounting Pronouncements

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

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

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

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

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

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

NOTE 2 — INVESTMENT SECURITIES

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

	September 30, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 8,303	$ 895	$ (81)	$ 9,117	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 contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity at September 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	8,303	9,117	5.56
Total	$ 8,303	$ 9,117	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 September 30, 2012 and December 31, 2011.

	September 30, 2012			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission related Investments	$ 1,183	$ (81)	$ –	$ –

	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:

	September 30, 2012	December 31, 2011
Real estate mortgage	$ 660,174	$ 643,170
Production and intermediate-term	450,323	470,988
Agribusiness		
Processing and marketing	26,112	27,806
Farm-related business	7,875	8,044
Total agribusiness	33,987	35,850
Rural residential real estate	133,874	98,762
Lease receivables	2,135	1,305
Total Loans	$ 1,280,493	$ 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. Participation loan balances at period end were as follows:

	September 30, 2012							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 6,446	$ –	$ –	$ –	$ –	$ –	$ 6,446
Production and intermediate-term	6,100	70,579	3,790	–	–	–	9,890	70,579
Agribusiness								
Processing and marketing	874	2,223	5,525	–	7,800	–	14,199	2,223
Total agribusiness	874	2,223	5,525	–	7,800	–	14,199	2,223
Total	$ 6,974	$ 79,248	$ 9,315	$ –	$ 7,800	$ –	$ 24,089	$ 79,248

	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

Significant sources of liquidity for the Association are the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at September 30, 2012 and indicates that approximately 12.86 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	$ 11,014	$ 53,327	$ 595,833	$ 660,174
Production and intermediate-term	145,797	199,557	104,969	450,323
Agribusiness				
Processing and marketing	3,198	8,412	14,502	26,112
Farm-related business	3,470	2,300	2,105	7,875
Total agribusiness	6,668	10,712	16,607	33,987
Rural residential real estate	1,171	5,603	127,100	133,874
Lease receivables	32	2,103	–	2,135
Total loans	$ 164,682	$ 271,302	$ 844,509	$ 1,280,493

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

	September 30, 2012	December 31, 2011
Real estate mortgage:		
Acceptable	95.75%	97.13%
OAEM	2.45	1.82
Substandard/doubtful/loss	1.80	1.05
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	89.79%	91.57%
OAEM	3.30	2.29
Substandard/doubtful/loss	6.91	6.14
	100.00%	100.00%
Agribusiness:		
Processing and marketing		
Acceptable	92.66%	90.04%
OAEM	7.34	7.74
Substandard/doubtful/loss	–	2.22
	100.00%	100.00%
Farm-related business		
Acceptable	93.71%	83.62%
OAEM	0.69	0.09
Substandard/doubtful/loss	5.60	16.29
	100.00%	100.00%

	September 30, 2012	December 31, 2011
Total agribusiness		
Acceptable	92.90%	88.60%
OAEM	5.80	6.02
Substandard/doubtful/loss	1.30	5.38
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.60%	98.69%
OAEM	0.63	0.54
Substandard/doubtful/loss	0.77	0.77
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	93.89%	94.92%
OAEM	2.64	2.01
Substandard/doubtful/loss	3.47	3.07
	100.00%	100.00%

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

	September 30, 2012					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 2,140	$ 2,692	$ 4,832	$ 670,464	$ 675,296	$ –
Production and intermediate-term	7,151	3,065	10,216	447,652	457,868	–
Agribusiness						
Processing and marketing	–	(13)	(13)	26,334	26,321	–
Farm-related business	19	–	19	7,932	7,951	–
Total agribusiness	19	(13)	6	34,266	34,272	–
Rural residential real estate	233	188	421	133,965	134,386	–
Lease receivables	–	–	–	2,135	2,135	–
Total	$ 9,543	$ 5,932	$ 15,475	$ 1,288,482	$ 1,303,957	$ –

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

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

	September 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 7,050	$ 346
Production and intermediate-term	24,453	3,047
Agribusiness		
Processing and marketing	(13)	921
Farm-related business	445	488
Total agribusiness	432	1,409
Rural residential real estate	224	127
Total nonaccrual loans	$ 32,159	$ 4,929
Accruing restructured loans:		
Real estate mortgage	$ 38	$ 39
Total accruing restructured loans	$ 38	$ 39
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ –
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 32,197	$ 4,968
Other property owned	40	40
Total nonperforming assets	$ 32,237	$ 5,008
Nonaccrual loans as a percentage of total loans	2.51%	0.39%
Nonperforming assets as a percentage of total loans and other property owned	2.52%	0.40%
Nonperforming assets as a percentage of capital	16.04%	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.

	September 30, 2012	December 31, 2011
Impaired nonaccrual loans:		
Current as to principal and interest	$ 20,051	$ 1,697
Past due	12,108	3,232
Total impaired nonaccrual loans	32,159	4,929
Impaired accrual loans:		
Restructured	38	39
90 days or more past due	–	–
Total impaired accrual loans	38	39
Total impaired loans	$ 32,197	$ 4,968

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

	September 30, 2012			Quarter Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 160	$ 152	$ 82	$ 135	$ –	$ 63	$ –
Production and intermediate-term	23,195	23,839	10,369	19,606	28	9,228	63
Agribusiness							
Farm-related business	445	471	84	376	1	177	1
Total agribusiness	445	471	84	376	1	177	1
Rural residential real estate	37	51	17	31	–	14	–
Total	$ 23,837	$ 24,513	$ 10,552	$ 20,148	$ 29	$ 9,482	$ 64
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 6,928	$ 7,016	$ –	$ 5,856	$ 8	$ 2,756	$ 19
Production and intermediate-term	1,258	3,080	–	1,063	2	500	3
Agribusiness							
Processing and marketing	(13)	–	–	(11)	–	(5)	–
Farm-related business	–	1	–	–	–	–	–
Total agribusiness	(13)	1	–	(11)	–	(5)	–
Rural residential real estate	187	184	–	159	–	75	1
Total	$ 8,360	$ 10,281	$ –	$ 7,067	$ 10	$ 3,326	$ 23
Total impaired loans:							
Real estate mortgage	$ 7,088	$ 7,168	$ 82	$ 5,991	$ 8	$ 2,819	$ 19
Production and intermediate-term	24,453	26,919	10,369	20,669	30	9,728	66
Agribusiness							
Processing and marketing	(13)	–	–	(11)	–	(5)	–
Farm-related business	445	472	84	376	1	177	1
Total agribusiness	432	472	84	365	1	172	1
Rural residential real estate	224	235	17	190	–	89	1
Total	$ 32,197	$ 34,794	$ 10,552	$ 27,215	$ 39	$ 12,808	$ 87

	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 each reporting period.

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Residential Real Estate	Lease Receivables	Total
Allowance for credit losses:						
Balance at June 30, 2012	$ 453	$ 9,243	$ 745	$ 400	$ 8	$ 10,849
Charge-offs	–	(379)	–	–	–	(379)
Recoveries	–	1	1	–	–	2
Provision for loan losses	384	5,008	(104)	54	–	5,342
Balance at September 30, 2012	$ 837	$ 13,873	$ 642	$ 454	$ 8	$ 15,814
Balance at December 31, 2011	$ 1,368	$ 8,261	$ 931	$ 353	$ 4	$ 10,917
Charge-offs	–	(421)	(1)	(26)	–	(448)
Recoveries	–	2	1	–	–	3
Provision for loan losses	(531)	6,031	(289)	127	4	5,342
Balance at September 30, 2012	$ 837	$ 13,873	$ 642	$ 454	$ 8	$ 15,814
Balance at June 30, 2011	$ 775	$ 5,748	$ 1,786	$ 316	$ 3	$ 8,628
Charge-offs	–	(84)	–	–	–	(84)
Recoveries	–	–	–	–	–	–
Provision for loan losses	384	2,773	(634)	16	–	2,539
Balance at September 30, 2011	$ 1,159	$ 8,437	$ 1,152	$ 332	$ 3	$ 11,083
Balance at December 31, 2010	$ 773	$ 6,626	$ 1,261	$ 341	$ 3	$ 9,004
Charge-offs	–	(1,150)	–	–	–	(1,150)
Recoveries	–	17	–	–	–	17
Provision for loan losses	386	2,944	(109)	(9)	–	3,212
Balance at September 30, 2011	$ 1,159	$ 8,437	$ 1,152	$ 332	$ 3	$ 11,083
Loans individually evaluated for impairment	$ 82	$ 10,369	$ 84	$ 17	$ –	$ 10,552
Loans collectively evaluated for impairment	755	3,504	558	437	8	5,262
Balance at September 30, 2012	$ 837	$ 13,873	$ 642	$ 454	$ 8	$ 15,814
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	$ 7,045	$ 24,457	$ 432	$ 225	$ –	$ 32,159
Loans collectively evaluated for impairment	668,251	433,411	33,840	134,161	2,135	1,271,798
Balance at September 30, 2012	$ 675,296	$ 457,868	$ 34,272	$ 134,386	$ 2,135	$ 1,303,957
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 nine months ended September 30, 2012 or during the three months ended September 30, 2011.

	Nine months ended September 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

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

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

The 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 $134 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 nine months ended September 30, 2012	2011
Pension	$ 982	$ 970
401(k)	265	232
Other postretirement benefits	203	246
Total	$ 1,450	$ 1,448

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

	Actual YTD Through 9/30/12	Projected Contributions For Remainder of 2012	Projected Total Contributions 2012
Pension	$ –	$ 1,412	$ 1,412
Other postretirement benefits	129	37	166
Total	$ 129	$ 1,449	$ 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

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

Accounting guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 5.01 percent of the issued stock of the Bank as of September 30, 2012 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.8 billion and shareholders' equity totaled $2.5 billion. The Bank's earnings were $358 million for the first nine months of 2012. In addition, the Association has an investment of $10 related to other Farm Credit institutions.

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association has no Level 1 assets or liabilities measured at fair value on a recurring basis at September 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 September 30, 2012.

The carrying value of accrued interest approximates its fair value.

Level 3

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

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

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

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

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

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

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

	Standby Letters Of Credit
Balance at January 1, 2012	$ 1
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income	–
Purchases	–
Sales	–
Issuances	–
Settlements	(1)
Transfers in and/or out of level 3	–
Balance at September 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	–
Purchases	–
Sales	–
Issuances	–
Settlements	(27)
Transfers in and/or out of level 3	–
Balance at September 30, 2011	$ 18

INFORMATION ABOUT SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investment Securities

The fair values of predominantly all level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these level 3 assets.

Other Property Owned/Impaired Loans

Other property owned and impaired loans are valued using appraisals, market comparable sales, replacement costs and income and expense (cash flow) techniques. Certain unobservable inputs are used within these techniques to determine the level 3 fair value of these properties. The significant unobservable inputs are primarily sensitive only to industry, geographic and overall economic conditions, and/or specific attributes of each property.

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Mission Related Investments	$ 9,117	Discounted cash flow	Risk adjusted spread	2.00%–8.25%
Impaired loans and other property owned	$ 21,689	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

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

	September 30, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 21,645	$ –	$ –	$ 21,645	$ 21,645	$ (10,330)
Other property owned	40	–	–	44	44	(5)
Nonrecurring Assets	$ 21,685	$ –	$ –	$ 21,689	$ 21,689	$ (10,335)
Other Financial Instruments						
Assets:						
Cash	$ 1,541	$ 1,541	$ –	$ –	$ 1,541	
Investment securities, held-to-maturity	8,303	–	–	9,117	9,117	
Loans	1,243,033	–	–	1,238,567	1,238,567	
Accrued interest receivable	23,529	–	23,529	–	23,529	
Other Assets	$ 1,276,406	$ 1,541	$ 23,529	$ 1,247,684	$ 1,272,754	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,106,693	$ –	$ –	$ 1,109,834	$ 1,109,834	
Accrued interest payable	2,133	–	2,133	–	2,133	
Other Liabilities	$ 1,108,826	$ –	$ 2,133	$ 1,109,834	$ 1,111,967	

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 November 8, 2012, which is the date the financial statements were issued.