

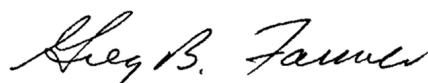
# THIRD QUARTER 2011

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## CERTIFICATION

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



Greg B. Farmer  
Chief Executive Officer



Terri E. Branch  
Chief Financial Officer



L. Wayne Kirby  
Chairman of the Board

November 7, 2011

## Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

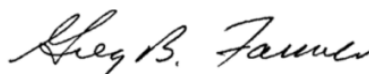
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2011. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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



L. Wayne Kirby  
Chairman of the Board



Greg B. Farmer  
Chief Executive Officer



Terri E. Branch  
Chief Financial Officer

November 7, 2011

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

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of *Colonial Farm Credit, ACA* (Association) for the period ended September 30, 2011. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2010 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## **LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including livestock operations such as beef cattle, horses, poultry, swine, and dairy farms and various field crops such as soybeans, peanuts, tobacco, cotton, and corn. Other predominant commodities in the portfolio are timber and rural home loans. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of September 30, 2011, was \$624,539, a decrease of \$3,615, as compared to \$628,154 at December 31, 2010. Net loans outstanding at September 30, 2011, were \$618,605 as compared to \$621,256 at December 31, 2010. Net loans accounted for 95.35 percent of total assets at September 30, 2011, as compared to 95.14 percent of total assets at December 31, 2010. The decrease in gross and net loan volume during the reporting period is attributed to the general economic downturn.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans decreased from \$24,494 at December 31, 2010, to \$16,342 at September 30, 2011. This decrease is primarily the result of the transfer of four large accounts to acquired property and charge-offs taken on several accounts offset by the transfer of three large accounts to nonaccrual.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2011, was \$5,934 compared to \$6,898 at December 31, 2010, and was considered by management to be adequate to cover probable losses.

## **RESULTS OF OPERATIONS**

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

Net income for the three months ended September 30, 2011, totaled \$2,062, as compared to \$3,132 for the same period in 2010. Net interest income decreased \$170 for the three months ended September 30, 2011, as compared to the same period in 2010. Lower return on the Association's loanable funds is the primary reason for this decrease in net interest income.

Nonaccrual income was \$34 for the three months ended September 30, 2011, as compared to \$14 for the same period in 2010. The Association recorded a provision for loan losses of \$468 for the three months ended September 30, 2011, and a provision for loan losses of \$1,053 for the same period in 2010.

Noninterest income for the three months ended September 30, 2011, totaled \$187, as compared to \$1,560 for the same period of 2010, a decrease of \$1,373. The decrease is the result of a decrease in gains on other property owned of \$1,134, loan fees of \$113, other noninterest income of \$58, patronage of \$50, and gains from the sale of rural home loans of \$21 offset by an increase in fees for financially related services of \$3. Noninterest expense for the three months ended September 30, 2011, increased \$122 compared to the same period of 2010. This increase is the result of an increase in salaries and benefits of \$84, other operating expenses of \$37, and FCSIC insurance premiums of \$7 offset by a decrease in occupancy and equipment of \$6.

### ***For the nine months ended September 30, 2011***

Net income for the nine months ended September 30, 2011, totaled \$5,828, as compared to \$11,300 for the same period in 2010. At September 30, 2011, net interest income decreased by \$40 or 0.27 percent compared to September 30, 2010. Interest income on loans decreased by \$2,474 and interest expense decreased by \$2,434. This change in net interest

income is the result of lower return on the Association's loanable funds offset by higher spreads.

Nonaccrual income was \$141 for the nine months ended September 30, 2011, as compared to \$198 for the same period in 2010. The Association recorded a provision for loan losses of \$3,741 for the nine months ended September 30, 2011, and a provision for loan losses of \$1,695 for the same period in 2010.

Noninterest income for the nine months ended September 30, 2011, totaled \$3,011, as compared to \$5,993 for the same period of 2010, a decrease of \$2,982. The decrease is the result of an insurance premium refund of \$1,553 paid in 2010 plus a decrease in gains on other property owned of \$1,225, patronage of \$162, loan fees of \$76, and fees for financially related services of \$6 offset by an increase in gains from the sale of rural home loans of \$40. Noninterest expense for the nine months ended September 30, 2011, increased \$434 compared to the same period of 2010. The increase in noninterest expense is attributable to an increase in salaries and benefits of \$292, other operating expense of \$141, and FCSIC insurance premium of \$24 offset by a decrease in occupancy and equipment of \$23.

During the third quarter of 2010, the Association recorded \$1,553 thousand of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The amount is reflected in Noninterest Income on the Consolidated Statements of Income. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

## **FUNDING SOURCES**

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2011, was \$502,168 as compared to \$505,627 at December 31, 2010.

## **CAPITAL RESOURCES**

Total members' equity at September 30, 2011, increased to \$139,504 from the December 31, 2010, total of \$133,730. The increase is attributed to current year's earnings less net retirements of member stock.

Total capital stock and participation certificates were \$4,661 on September 30, 2011, compared to \$4,786 on December 31, 2010. This decrease is attributed to the retirement of inactive Class C stock.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of September 30, 2011, the Association's total surplus ratio and core surplus ratio were 18.61 percent and 18.61 percent, respectively, and the permanent capital ratio was 19.31 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

## **REGULATORY MATTERS**

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

- ensure that the Banks hold sufficient high quality, readily marketable investments to provide sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption;
- strengthen the safety and soundness of System institutions;
- seek comments on how the FCA can comply with section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires the FCA to remove all references to and requirements relating to credit ratings and to substitute other appropriate standards of creditworthiness;
- reduce regulatory burden with respect to investments that fail to meet eligibility criteria after purchase or are unsuitable; and
- enhance the ability of the System to supply credit to agriculture and aquatic producers by ensuring adequate availability to funds.

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

**NOTE:** Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-804-746-1252, or writing Terri E. Branch, Executive Vice President and Chief Financial Officer, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111, or accessing the website, [www.colonialfarmcredit.com](http://www.colonialfarmcredit.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Colonial Farm Credit, ACA  
**Consolidated Balance Sheets**

<i>(dollars in thousands)</i>	<b>September 30, 2011</b> <i>(unaudited)</i>	<b>December 31, 2010</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 217	\$ 213
Loans	624,539	628,154
Less: allowance for loan losses	5,934	6,898
Net loans	618,605	621,256
Loans held for sale	1,301	2,696
Other investments	1,035	1,361
Accrued interest receivable	6,004	4,783
Investments in other Farm Credit institutions	9,390	9,390
Premises and equipment, net	1,851	1,936
Other property owned	4,837	2,076
Due from AgFirst Farm Credit Bank	2,809	4,928
Other assets	2,699	4,319
Total assets	\$ 648,748	\$ 652,958
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 502,168	\$ 505,627
Accrued interest payable	1,107	1,231
Patronage refund payable	119	6,120
Other liabilities	5,850	6,250
Total liabilities	509,244	519,228
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	4,661	4,786
Unallocated retained earnings	135,034	129,187
Accumulated other comprehensive income (loss)	(191)	(243)
Total members' equity	139,504	133,730
Total liabilities and members' equity	\$ 648,748	\$ 652,958

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

Colonial Farm Credit, ACA

# Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Interest Income</b>				
Loans	\$ 8,459	\$ 9,222	\$ 25,139	\$ 27,609
Other investments	25	20	55	59
Total interest income	8,484	9,242	25,194	27,668
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	3,461	4,049	10,530	12,964
Net interest income	5,023	5,193	14,664	14,704
Provision for loan losses	468	1,053	3,741	1,695
Net interest income after provision for loan losses	4,555	4,140	10,923	13,009
<b>Noninterest Income</b>				
Loan fees	61	174	352	428
Fees for financially related services	21	18	47	53
Patronage refund from other Farm Credit institutions	958	1,008	3,126	3,288
Gains (losses) on other property owned, net	(984)	150	(1,062)	163
Gains (losses) on sale of rural home loans, net	143	164	404	364
Gains (losses) on sales of premises and equipment, net	—	—	6	6
Insurance Fund refunds	—	—	—	1,553
Other noninterest income (expense)	(12)	46	138	138
Total noninterest income	187	1,560	3,011	5,993
<b>Noninterest Expense</b>				
Salaries and employee benefits	1,961	1,877	5,884	5,592
Occupancy and equipment	165	171	467	490
Insurance Fund premium	79	72	235	211
Other operating expenses	478	441	1,517	1,376
Total noninterest expense	2,683	2,561	8,103	7,669
Income before income taxes	2,059	3,139	5,831	11,333
Provision (benefit) for income taxes	(3)	7	3	33
Net income	\$ 2,062	\$ 3,132	\$ 5,828	\$ 11,300

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

Colonial Farm Credit, ACA

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

<i>(dollars in thousands)</i>	<b>Capital Stock and Participation Certificates</b>	<b>Unallocated Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Members' Equity</b>
Balance at December 31, 2009	\$ 5,170	\$ 119,017	\$ (140)	\$ 124,047
Comprehensive income				
Net income		11,300		11,300
Employee benefit plans adjustments			19	19
Total comprehensive income				11,319
Capital stock/participation certificates issued/(retired), net	(402)			(402)
Patronage distribution adjustment		4		4
Balance at September 30, 2010	\$ 4,768	\$ 130,321	\$ (121)	\$ 134,968
Balance at December 31, 2010	\$ 4,786	\$ 129,187	\$ (243)	\$ 133,730
Comprehensive income				
Net income		5,828		5,828
Employee benefit plans adjustments			52	52
Total comprehensive income				5,880
Capital stock/participation certificates issued/(retired), net	(125)			(125)
Patronage distribution adjustment		19		19
Balance at September 30, 2011	\$ 4,661	\$ 135,034	\$ (191)	\$ 139,504

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

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## Colonial Farm Credit, ACA

# Notes to the Consolidated Financial Statements

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

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

The accompanying financial statements include the accounts of Colonial Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2010, are contained in the 2010 Annual Report to Shareholders. These unaudited third quarter 2011 consolidated financial statements should be read in conjunction with the 2010 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the nine months ended September 30, 2011, are not necessarily indicative of the results to be expected for the year ending December 31, 2011.

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

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

#### **Recently Issued Accounting Pronouncements**

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

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

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

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information

about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

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

In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This amendment temporarily delayed the effective date of the disclosures about TDRs required by the

guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about TDRs coincides with the guidance for determining what constitutes a TDR as described above.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This amendment provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period were effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in significant additional disclosures (see Note 2).

Effective January 1, 2010, the Association adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 4).

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

## NOTE 2 – LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	September 30, 2011	December 31, 2010
Real estate mortgage	\$ 351,098	\$ 360,111
Production and intermediate-term	199,993	175,115
Agribusiness		
Loans to cooperatives	3,578	10,124
Processing and marketing	31,616	42,375
Farm-related business	9,039	8,515
Total agribusiness	44,233	61,014
Communication	1,930	1,945
Energy	1,145	1,749
Rural residential real estate	26,140	28,220
<b>Total Loans</b>	<b>\$ 624,539</b>	<b>\$ 628,154</b>

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

	September 30, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 235	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 235	\$ -
Production and intermediate-term	47,275	-	-	-	-	-	47,275	-
Agribusiness								
Loans to cooperatives	3,675	-	-	-	-	-	3,675	-
Processing and marketing	15,790	-	1,291	-	-	-	17,081	-
Farm-related business	4,108	-	2,034	-	-	-	6,142	-
Total agribusiness	23,573	-	3,325	-	-	-	26,898	-
Communication	1,930	-	-	-	-	-	1,930	-
Energy	1,178	-	-	-	-	-	1,178	-
<b>Total</b>	<b>\$ 74,191</b>	<b>\$ -</b>	<b>\$ 3,325</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 77,516</b>	<b>\$ -</b>

	December 31, 2010							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 386	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 386	\$ -
Production and intermediate-term	42,150	-	-	-	-	-	42,150	-
Agribusiness								
Loans to cooperatives	10,229	-	-	-	-	-	10,229	-
Processing and marketing	27,774	-	1,865	-	-	-	29,639	-
Farm-related business	2,911	-	2,041	-	-	-	4,952	-
Total agribusiness	40,914	-	3,906	-	-	-	44,820	-
Communication	1,945	-	-	-	-	-	1,945	-
Energy	1,797	-	-	-	-	-	1,797	-
<b>Total</b>	<b>\$ 87,192</b>	<b>\$ -</b>	<b>\$ 3,906</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 91,098</b>	<b>\$ -</b>

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at September 30, 2011 and indicates that approximately 26.77 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	\$ 23,144	\$ 48,534	\$ 279,420	\$ 351,098
Production and intermediate term	108,901	48,643	42,449	199,993
Agribusiness				
Loans to cooperatives	2,300	1,278	-	3,578
Processing and marketing	22,961	7,789	866	31,616
Farm-related business	4,746	3,698	595	9,039
Total agribusiness	30,007	12,765	1,461	44,233
Communication	1,930	-	-	1,930
Energy	1,145	-	-	1,145
Rural residential real estate	2,089	6,785	17,266	26,140
<b>Total Loans</b>	<b>\$ 167,216</b>	<b>\$ 116,727</b>	<b>\$ 340,596</b>	<b>\$ 624,539</b>

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 as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010		September 30, 2011	December 31, 2010
<b>Real estate mortgage:</b>			<b>Total agribusiness:</b>		
Acceptable	89.84%	89.69%	Acceptable	78.68%	58.23%
OAEM	5.69	6.56	OAEM	15.14	20.55
Substandard/doubtful/loss	4.47	3.75	Substandard/doubtful/loss	6.18	21.22
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Communication:</b>		
Acceptable	86.71%	85.90%	Acceptable	100.00%	100.00%
OAEM	6.96	8.17	OAEM	-	-
Substandard/doubtful/loss	6.33	5.93	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Agribusiness:</b>			<b>Energy and water/waste disposal:</b>		
<b>Loans to cooperatives:</b>			Acceptable	100.00%	100.00%
Acceptable	100.00%	39.49%	OAEM	-	-
OAEM	-	14.17	Substandard/doubtful/loss	-	-
Substandard/doubtful/loss	-	46.34		<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>			
<b>Processing and marketing:</b>			<b>Rural residential real estate:</b>		
Acceptable	71.39%	55.46%	Acceptable	92.50%	90.34%
OAEM	20.46	25.82	OAEM	3.55	5.20
Substandard/doubtful/loss	8.15	18.72	Substandard/doubtful/loss	3.95	4.46
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Farm-related business:</b>			<b>Total Loans:</b>		
Acceptable	95.77%	94.22%	Acceptable	88.21%	85.68%
OAEM	2.50	1.93	OAEM	6.64	8.26
Substandard/doubtful/loss	1.73	3.85	Substandard/doubtful/loss	5.15	6.06
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>

The following tables provide an age analysis of past due loans and related accrued interest as of September 30, 2011 and December 31, 2010:

<b>September 30, 2011</b>						
	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>	<b>Recorded Investment 90 Days or More Past Due and Accruing Interest</b>
Real estate mortgage	\$ 3,365	\$ 920	\$ 4,285	\$ 349,972	\$ 354,257	\$ -
Production and intermediate-term Agribusiness	684	3,700	4,384	198,139	202,523	-
Loans to cooperatives	-	-	-	3,594	3,594	-
Processing and marketing	405	-	405	31,356	31,761	-
Farm-related business	-	-	-	9,062	9,062	-
Total agribusiness	405	-	405	44,012	44,417	-
Communication	-	-	-	1,930	1,930	-
Energy and water/waste disposal	-	-	-	1,146	1,146	-
Rural residential real estate	309	131	440	25,830	26,270	-
Total	\$ 4,763	\$ 4,751	\$ 9,514	\$ 621,029	\$ 630,543	\$ -

<b>December 31, 2010</b>						
	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>	<b>Recorded Investment 90 Days or More Past Due and Accruing Interest</b>
Real estate mortgage	\$ 3,085	\$ 631	\$ 3,716	\$ 359,085	\$ 362,801	\$ -
Production and intermediate-term Agribusiness	4,658	2,017	6,675	170,237	176,912	-
Loans to cooperatives	-	4,701	4,701	5,443	10,144	-
Processing and marketing	-	-	-	42,478	42,478	-
Farm-related business	-	194	194	8,354	8,548	-
Total agribusiness	-	4,895	4,895	56,275	61,170	-
Communication	-	-	-	1,945	1,945	-
Energy and water/waste disposal	-	-	-	1,749	1,749	-
Rural residential real estate	708	171	879	27,481	28,360	92
Total	\$ 8,451	\$ 7,714	\$ 16,165	\$ 616,772	\$ 632,937	\$ 92

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

	September 30, 2011	December 31, 2010
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 5,213	\$ 5,128
Production and intermediate-term	10,636	9,534
Agribusiness		
Loans to cooperatives	-	4,701
Processing and marketing	-	4,191
Farm-related business	-	329
Total agribusiness	-	9,221
Rural residential real estate	493	611
Total nonaccrual loans	<u>\$ 16,342</u>	<u>\$ 24,494</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ -	\$ 61
Production and intermediate-term	-	-
Agribusiness	-	-
Loans to cooperatives	-	-
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Total accruing restructured loans	<u>\$ -</u>	<u>\$ 61</u>
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ -	\$ -
Production and intermediate-term	-	-
Agribusiness	-	-
Loans to cooperatives	-	-
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	-	92
Total accruing loans 90 days or more past due	<u>\$ -</u>	<u>\$ 92</u>
Total nonperforming loans	\$ 16,342	\$ 24,647
Other property owned	4,837	2,076
Total nonperforming assets	<u>\$ 21,179</u>	<u>\$ 26,723</u>
Nonaccrual loans as a percentage of total loans	2.62%	3.90%
Nonperforming assets as a percentage of total loans and other property owned	3.37%	4.24%
Nonperforming assets as a percentage of capital	<u>15.18%</u>	<u>19.98%</u>

The following table presents information relating to impaired loans (including accrued interest) at September 30, 2011 and December 31, 2010. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	September 30, 2011	December 31, 2010
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 11,189	\$ 12,614
Past due	5,153	11,880
Total impaired nonaccrual loans	<u>16,342</u>	<u>24,494</u>
<b>Impaired accrual loans:</b>		
Restructured	-	61
90 days or more past due	-	92
Total impaired accrual loans	<u>-</u>	<u>153</u>
Total impaired loans	<u>\$ 16,342</u>	<u>\$ 24,647</u>

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

	September 30, 2011			Quarter Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans with a related allowance for credit losses:</b>							
Real estate mortgage	\$ 1,126	\$ 1,365	\$ 235	\$ 1,159	\$ 3	\$ 1,432	\$ 10
Production and intermediate-term Agribusiness	9,545	10,758	3,126	9,824	23	12,137	87
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-
Total agribusiness	-	-	-	-	-	-	-
Rural residential real estate	88	173	24	91	-	112	1
Total	\$ 10,759	\$ 12,296	\$ 3,385	\$ 11,074	\$ 26	\$ 13,681	\$ 98
<b>Impaired loans with no related allowance for credit losses:</b>							
Real estate mortgage	\$ 4,087	\$ 5,088	\$ -	\$ 4,206	\$ 9	\$ 5,196	\$ 37
Production and intermediate-term Agribusiness	1,091	2,675	-	1,123	3	1,388	9
Loans to cooperatives	-	36	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-
Total agribusiness	-	36	-	-	-	-	-
Rural residential real estate	405	695	-	417	1	515	4
Total	\$ 5,583	\$ 8,494	\$ -	\$ 5,746	\$ 13	\$ 7,099	\$ 50
<b>Total impaired loans:</b>							
Real estate mortgage	\$ 5,213	\$ 6,453	\$ 235	\$ 5,365	\$ 12	\$ 6,628	\$ 47
Production and intermediate-term Agribusiness	10,636	13,433	3,126	10,947	26	13,525	96
Loans to cooperatives	-	36	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-
Total agribusiness	-	36	-	-	-	-	-
Rural residential real estate	493	868	24	508	1	627	5
Total	\$ 16,342	\$ 20,790	\$ 3,385	\$ 16,820	\$ 39	\$ 20,780	\$ 148

	December 31, 2010			Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$ 1,774	\$ 2,039	\$ 414	\$ 1,620	\$ 19
Production and intermediate-term Agribusiness	5,967	6,273	1,853	5,449	62
Loans to cooperatives	4,036	4,001	1,032	3,686	42
Processing and marketing	4,191	4,341	600	3,828	44
Farm-related business	-	-	-	-	-
Total agribusiness	8,227	8,342	1,632	7,514	86
Rural residential real estate	124	163	36	113	1
Total	\$ 16,092	\$ 16,817	\$ 3,935	\$ 14,696	\$ 168
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,415	\$ 4,115	\$ -	\$ 3,119	\$ 36
Production and intermediate-term Agribusiness	3,567	4,151	-	3,257	38
Loans to cooperatives	665	659	-	607	7
Processing and marketing	-	-	-	(1)	-
Farm-related business	329	320	-	301	3
Total agribusiness	994	979	-	907	10
Rural residential real estate	579	661	-	529	6
Total	\$ 8,555	\$ 9,906	\$ -	\$ 7,812	\$ 90
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 5,189	\$ 6,154	\$ 414	\$ 4,739	\$ 55
Production and intermediate-term Agribusiness	9,534	10,424	1,853	8,706	100
Loans to cooperatives	4,701	4,660	1,032	4,293	49
Processing and marketing	4,191	4,341	600	3,827	44
Farm-related business	329	320	-	301	3
Total agribusiness	9,221	9,321	1,632	8,421	96
Rural residential real estate	703	824	36	642	7
Total	\$ 24,647	\$ 26,723	\$ 3,935	\$ 22,508	\$ 258

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at September 30, 2011 and December 31, 2010.

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

September 30, 2011							
	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
<b>Allowance for credit losses:</b>							
Balance at December 31, 2010	\$ 2,148	\$ 2,674	\$ 1,887	\$ 9	\$ 8	\$ 172	\$ 6,898
Charge-offs	(298)	(1,795)	(2,469)	-	-	(271)	(4,833)
Recoveries	29	76	21	-	-	2	128
Provision for loan losses	(192)	2,964	744	(1)	(3)	229	3,741
Balance at September 30, 2011	<u>\$ 1,687</u>	<u>\$ 3,919</u>	<u>\$ 183</u>	<u>\$ 8</u>	<u>\$ 5</u>	<u>\$ 132</u>	<u>\$ 5,934</u>
September 30, 2011 allowance ending balance:							
Loans individually evaluated for impairment	<u>\$ 235</u>	<u>\$ 3,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24</u>	<u>\$ 3,385</u>
Loans collectively evaluated for impairment	<u>\$ 1,452</u>	<u>\$ 793</u>	<u>\$ 183</u>	<u>\$ 8</u>	<u>\$ 5</u>	<u>\$ 108</u>	<u>\$ 2,549</u>
<b>Recorded investment in loans outstanding:</b>							
Ending Balance at September 30, 2011	<u>\$ 354,257</u>	<u>\$ 202,523</u>	<u>\$ 44,417</u>	<u>\$ 1,930</u>	<u>\$ 1,146</u>	<u>\$ 26,270</u>	<u>\$ 630,543</u>
September 30, 2011 recorded investment ending balance:							
Loans individually evaluated for impairment	<u>\$ 7,588</u>	<u>\$ 12,476</u>	<u>\$ 292</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 745</u>	<u>\$ 21,101</u>
Loans collectively evaluated for impairment	<u>\$ 346,669</u>	<u>\$ 190,047</u>	<u>\$ 44,125</u>	<u>\$ 1,930</u>	<u>\$ 1,146</u>	<u>\$ 25,525</u>	<u>\$ 609,442</u>

December 31, 2010							
	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
<b>Allowance for credit losses:</b>							
Balance at December 31, 2009	\$ 2,494	\$ 2,661	\$ 1,646	\$ 10	\$ 12	\$ 257	\$ 7,080
Charge-offs	(784)	(599)	(16)	-	-	(147)	(1,546)
Recoveries	24	142	10	-	-	1	177
Provision for loan losses	414	470	247	(1)	(4)	61	1,187
Balance at December 31, 2010	<u>\$ 2,148</u>	<u>\$ 2,674</u>	<u>\$ 1,887</u>	<u>\$ 9</u>	<u>\$ 8</u>	<u>\$ 172</u>	<u>\$ 6,898</u>
December 31, 2010 allowance ending balance:							
Loans individually evaluated for impairment	<u>\$ 414</u>	<u>\$ 1,853</u>	<u>\$ 1,632</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36</u>	<u>\$ 3,935</u>
Loans collectively evaluated for impairment	<u>\$ 1,734</u>	<u>\$ 821</u>	<u>\$ 255</u>	<u>\$ 9</u>	<u>\$ 8</u>	<u>\$ 136</u>	<u>\$ 2,963</u>
<b>Recorded investment in loans outstanding:</b>							
Ending Balance at December 31, 2010	<u>\$ 362,801</u>	<u>\$ 176,912</u>	<u>\$ 61,170</u>	<u>\$ 1,945</u>	<u>\$ 1,749</u>	<u>\$ 28,360</u>	<u>\$ 632,937</u>
December 31, 2010 recorded investment ending balance:							
Loans individually evaluated for impairment	<u>\$ 7,663</u>	<u>\$ 10,346</u>	<u>\$ 9,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,008</u>	<u>\$ 28,732</u>
Loans collectively evaluated for impairment	<u>\$ 355,138</u>	<u>\$ 166,566</u>	<u>\$ 51,455</u>	<u>\$ 1,945</u>	<u>\$ 1,749</u>	<u>\$ 27,352</u>	<u>\$ 604,205</u>

### NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the nine months ended September 30,	
	2011	2010
Pension	\$ 1,822	\$ 1,655
401(k)	151	147
Other postretirement benefits	250	208
Total	\$ 2,223	\$ 2,010

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

	Actual YTD Through 9/30/11	Projected Contributions For Remainder of 2011	Projected Total Contributions 2011
Pension	\$ -	\$ 1,887	\$ 1,887
Other postretirement benefits	170	90	260
Total	\$ 170	\$ 1,977	\$ 2,147

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2011.

Further details regarding employee benefit plans are contained in the 2010 Annual Report to Shareholders.

### NOTE 4 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

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

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

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

#### Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at September 30, 2011 consist of assets held in trust funds related to supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

#### Level 2

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

#### 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 September 30, 2011 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and

judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principle balance of the loan, a specific reserve is established.

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

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

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

	September 30, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>				
Assets held in trust funds	\$ 741	\$ -	\$ -	\$ 741
Total Assets	\$ 741	\$ -	\$ -	\$ 741

<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 24	\$ 24
Total Liabilities	\$ -	\$ -	\$ 24	\$ 24

	December 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>				
Assets held in trust funds	\$ 609	\$ -	\$ -	\$ 609
Total Assets	\$ 609	\$ -	\$ -	\$ 609

<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 90	\$ 90
Total Liabilities	\$ -	\$ -	\$ 90	\$ 90

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

	Standby Letters Of Credit
Balance at January 1, 2011	\$ 90
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases	-
Sales	-
Issuances	-
Settlements	(66)
Transfers in and/or out of level 3	-
Balance at September 30, 2011	\$ 24

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 109
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	17
Transfers in and/or out of level 3	-
Balance at September 30, 2010	\$ 126

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

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

	September 30, 2011				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 6,443	\$ 6,443	\$ (4,155)
Other property owned	\$ -	\$ -	\$ 4,837	\$ 4,837	\$ (1,024)

	December 31, 2010				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 12,157	\$ 12,157	\$ (1,707)
Other property owned	\$ -	\$ -	\$ 2,076	\$ 2,076	\$ (468)

## NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>				
Cash	\$ 217	\$ 217	\$ 213	\$ 213
Loans, net of allowance	\$ 624,609	\$ 630,770	\$ 626,039	\$ 626,265
Tobacco Buyout SIIC	\$ 1,035	\$ 1,087	\$ 1,361	\$ 1,431
Assets held in trust funds	\$ 741	\$ 741	\$ 609	\$ 609
<b>Financial liabilities:</b>				
Notes payable to AgFirst Farm Credit Bank	\$ 503,275	\$ 507,198	\$ 506,858	\$ 503,151

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

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

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

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

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

- C. **Investment in AgFirst Farm Credit Bank:** Estimating the fair value of the Association's investment in the Bank 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 2.64 percent of the issued stock of the Bank as of September 30, 2011 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.3 billion and shareholders' equity totaled \$2.2 billion. The Bank's earnings were \$295 million during the first nine months of 2011.
- D. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

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

- E. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.
- F. **Tobacco Buyout SIIC:** Fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.
- G. **Assets Held in Trust Funds:** See Note 4 for discussion of estimation of fair value for this instrument.

## NOTE 6 – SUBSEQUENT EVENTS

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