First South Farm Credit, ACA

THIRD QUARTER 2011

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2011 quarterly report of First South 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.

William T. Kyser, II
Chairman of the Board

Stephen L. Rochelle
Chief Executive Officer

Bryan Applewhite
Chief Financial Officer

November 7, 2011

First South Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

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

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

Stephen L. Rochelle
Chief Executive Officer

Bryan Applewhite
Chief Financial Officer

November 7, 2011

First South Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of *First South 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 mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including poultry, cotton, livestock and forestry. 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.

Comparison of September 30, 2011 to December 31, 2010

The gross loan volume of the Association as of September 30, 2011, was $1,303,348, an increase of $119,779, as compared to $1,183,569 at December 31, 2010. Net loans outstanding at September 30, 2011, were $1,295,869 as compared to $1,176,373 at December 31, 2010. Net loans accounted for 90.88 percent of total assets at September 30, 2011, as compared to 89.55 percent of total assets at December 31, 2010. The increase in loan volume is primarily attributable to seasonal lending within the portfolio.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased to $11,048 at September 30, 2011 from $14,550 at December 31, 2010, a decrease of $3,502.

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 $7,479 compared to $7,196 at December 31, 2010, and was considered by management to be adequate to cover possible losses.

Comparison of September 30, 2011 to September 30, 2010

As stated previously, as of September 30, 2011, gross loan volume of the Association was $1,303,348 and net loans outstanding were $1,295,869. This represents an increase of $71,826 in gross loan volume as compared to $1,231,522 at September 30, 2010, and represents an increase of $70,517 in net loans outstanding as compared to $1,225,352 at September 30, 2010. Net loans increased as a percentage of total assets slightly to the aforementioned 90.88 percent of total assets at September 30, 2011, from 90.31 percent of total assets at September 30, 2010. The increase in loan volume is primarily attributable to overall continued growth in the portfolio.

Nonaccrual loans decreased from $17,219 at September 30, 2010, to $11,048 at September 30, 2011, a decrease of $6,171. The allowance for loan losses at September 30, 2011, was $7,479 compared to $6,170 at September 30, 2010, an increase of $1,309.

RESULTS OF OPERATIONS

For the three months ended September 30, 2011

Net income for the three months ended September 30, 2011, totaled $7,997, as compared to $7,880 for the same period in 2010. The increase in net income relates to various factors including improved net interest margins and a decrease in the provision for loan losses over the same period. Net interest income increased $1,118 for the three months ended September 30, 2011, as compared to the same period in 2010. The increase in net interest income was primarily the result of improved net interest margins within the portfolio as stated above.

Noninterest income for the three months ended September 30, 2011 totaled $4,562, as compared to $5,206 for the same period of 2010, a decrease of $644. The decrease is primarily the result of decreased patronage refunds from other Farm Credit institutions of $272 and a loss in other property owned for a net change of $791. These decreases were partially offset by an increase in loan fees of $114, and an increase in financially relates services of $305.

Noninterest expense for the three months ended September 30, 2011 increased $503 compared to the same period of 2010. The increase is primarily attributable to an increase in salaries and employee benefits of $295, an increase in occupancy and equipment of $54, an increase in other operating expenses of $120, and an increase in the Insurance Fund premium of $34.

The Association recorded a reversal of allowance for loan loss of $140 for the three months ended September 30, 2011, compared to a provision of $43 for the same period in 2010.

The Association recorded a provision for income taxes of $87 for the three months ended September 30, 2011, compared to a provision of $50 for the same period of 2010.

For the nine months ended September 30, 2011

Net income for the nine months ended September 30, 2011, totaled $22,163, as compared to $18,351 for the same period in 2010. This increase in net income primarily relates to improved net interest margins, a significant decrease in the provision for loan losses, and an overall reduction in Insurance Fund costs. Net interest income for the third quarter has increased $2,901 or 11.12 percent, as compared to the same period in 2010. The increase in net interest income was primarily the result of increased margins along with modest growth within the portfolio.

Noninterest income for the nine months ended September 30, 2011, totaled $15,421, as compared to $17,186 for the same period of 2010, a decrease of $1,765. The decrease is primarily the result of a decrease in loan fees of $82, a decrease in equity in earnings of other Farm Credit institutions of $439, a decrease in the Insurance Fund refund of $1,211, and a loss in other property owned for a net change of $568. These decreases were partially offset by an increase in fees for financially related services of $531.

Noninterest expense for the nine months ended September 30, 2011, increased $1,349 compared to the same period of 2010. The reason for the increase in noninterest expense was an increase in salaries and employee benefits of $730, an increase of $102 in occupancy and equipment, an increase of $87 in the Insurance Fund premium, and an increase in other operating expenses of $430.

The Association's provision for loan losses was $1,098 for the nine months ended September 30, 2011, compared to a provision of $5,253 for the same period in 2010.

The Associations provision for income taxes was $278 for the nine months ended September 30, 2011, compared to a provision of $148 for the same period of 2010.

INSURANCE FUND REFUND

During the first quarter of 2010, the Association recorded $1,211 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 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 $1,123,899 as compared to $1,022,532 at December 31, 2010, an increase of $101,367, and was $1,074,218 at September 30, 2010, an increase of $49,681 as compared to September 30, 2011. The increase in notes payable from December 31, 2010 to September 30, 2011 is related primarily to continued growth in the overall loan portfolio.

CAPITAL RESOURCES

Total members' equity at September 30, 2011, September 30, 2010 and December 31, 2010 was $265,004, $250,090 and $246,385, respectively. The increase from September 30, 2010 to September 30, 2011 is primarily attributable to the improved earnings of the Association reflected in allocated and unallocated retained earnings with a net increase of $15,017. The increase of $18,619 in total members' equity from December 31, 2010 to September 30, 2011 is primarily attributable to an increase in allocated and unallocated retained earnings with a net increase of $17,107, and a decrease in accumulated other comprehensive loss of $1,105. Total capital stock and participation certificates were $66,572, $65,950 and $66,165 at September 30, 2011, September 30, 2010 and December 31, 2010, respectively.

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 12.86 percent and 12.11 percent, respectively, and the permanent capital ratio was 14.07 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.

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.

STOCKHOLDER INVESTMENT

Stockholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst Farm Credit Bank's Quarterly and Annual 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 Annual and Quarterly reports are also on the Association's website, *www.firstsouthland.com*, or may be obtained upon request free of charge by calling 1-800-955-1722 or writing Bryan Applewhite, First South Farm Credit, ACA, 574 Highland Colony Parkway, Suite 100, Ridgeland, MS 39157. 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.

First South Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2011	September 30, 2010	December 31, 2010
	(unaudited)	(unaudited)	(audited)
Assets			
Cash	$ 5,277	$ 3,160	$ 5,615
Loans	1,303,348	1,231,522	1,183,569
Less: allowance for loan losses	7,479	6,170	7,196
Net loans	1,295,869	1,225,352	1,176,373
Accrued interest receivable	14,865	13,809	10,839
Investments in other Farm Credit institutions	84,826	88,603	88,105
Premises and equipment, net	7,233	6,424	6,637
Other property owned	3,680	5,192	4,888
Due from AgFirst Farm Credit Bank	12,207	12,620	19,378
Other assets	1,900	1,647	1,780
Total assets	$ 1,425,857	$ 1,356,807	$ 1,313,615
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 1,123,899	$ 1,074,218	$ 1,022,532
Accrued interest payable	2,496	2,470	2,395
Patronage refund payable	4	5	7,192
Allocated surplus payable	70	38	37
Other liabilities	34,384	29,986	35,074
Total liabilities	1,160,853	1,106,717	1,067,230
Commitments and contingencies			
Members' Equity			
Protected borrower stock	85	90	89
Capital stock and participation certificates	66,487	65,860	66,076
Retained earnings			
Allocated	104,791	98,027	110,558
Unallocated	113,404	105,151	90,530
Accumulated other comprehensive income (loss)	(19,763)	(19,038)	(20,868)
Total members' equity	265,004	250,090	246,385
Total liabilities and members' equity	$ 1,425,857	$ 1,356,807	$ 1,313,615

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

First South Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2011	2010	For the nine months ended September 30, 2011	2010
Interest Income				
Loans	$ 18,189	$ 17,052	$ 51,015	$ 48,451
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	7,763	7,744	22,033	22,370
Net interest income	10,426	9,308	28,982	26,081
Provision for (reversal of allowance for) loan losses	(140)	43	1,098	5,253
Net interest income after provision for (reversal of allowance for) loan losses	10,566	9,265	27,884	20,828
Noninterest Income				
Loan fees	687	573	2,182	2,264
Fees for financially related services	464	159	721	190
Patronage refund from other Farm Credit institutions	4,178	4,450	12,889	13,328
Gains (losses) on other property owned, net	(767)	24	(473)	95
Gains (losses) on sales of premises and equipment, net	—	—	3	(17)
Insurance Fund refunds	—	—	—	1,211
Other noninterest income	—	—	99	115
Total noninterest income	4,562	5,206	15,421	17,186
Noninterest Expense				
Salaries and employee benefits	4,856	4,561	14,539	13,809
Occupancy and equipment	381	327	1,042	940
Insurance Fund premium	163	129	451	364
Other operating expenses	1,644	1,524	4,832	4,402
Total noninterest expense	7,044	6,541	20,864	19,515
Income before income taxes	8,084	7,930	22,441	18,499
Provision for income taxes	87	50	278	148
Net income	$ 7,997	$ 7,880	$ 22,163	$ 18,351

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

First South Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2009	$ 92	$ 65,212	$ 102,957	$ 86,789	$ (20,018)	$ 235,032
Comprehensive income						
Net income				18,351		18,351
Employee benefit plans adjustments					980	980
Total comprehensive income						19,331
Protected borrower equity retired	(2)					(2)
Capital stock/participation certificates issued/(retired), net		648				648
Retained earnings retired			(4,825)			(4,825)
Patronage distribution adjustment			(105)	11		(94)
Balance at September 30, 2010	$ 90	$ 65,860	$ 98,027	$ 105,151	$ (19,038)	$ 250,090
Balance at December 31, 2010	$ 89	$ 66,076	$ 110,558	$ 90,530	$ (20,868)	$ 246,385
Comprehensive income						
Net income				22,163		22,163
Employee benefit plans adjustments					1,105	1,105
Total comprehensive income						23,268
Protected borrower equity retired	(4)					(4)
Capital stock/participation certificates issued/(retired), net		411				411
Retained earnings retired			(4,823)			(4,823)
Patronage distribution adjustment			(944)	711		(233)
Balance at September 30, 2011	$ 85	$ 66,487	$ 104,791	$ 113,404	$ (19,763)	$ 265,004

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

First South 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 First South 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 loan 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	$ 331,704	$ 315,757
Production and intermediate-term	888,939	776,278
Agribusiness		
Loans to cooperatives	4,844	8,873
Processing and marketing	41,444	43,481
Farm-related business	23,487	19,952
Total agribusiness	69,775	72,306
Communication	11,152	13,099
Energy	–	3,518
Rural residential real estate	1,778	2,611
Total Loans	$ 1,303,348	$ 1,183,569

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	$ 4,218	$ 64,031	$ –	$ –	$ 70,787	$ –	$ 75,005	$ 64,031
Production and intermediate-term	26,054	185,529	7,537	–	25,057	–	58,648	185,529
Agribusiness								
Loans to cooperatives	785	1,133	617	–	4,087	–	5,489	1,133
Processing and marketing	15,787	4,161	3,013	–	13,830	–	32,630	4,161
Farm-related business	–	9,901	–	9,226	452	920	452	20,047
Total agribusiness	16,572	15,195	3,630	9,226	18,369	920	38,571	25,341
Communication	11,158	–	–	–	–	–	11,158	–
Energy	–	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	53	–	53	–
Total	$ 58,002	$ 264,755	$ 11,167	$ 9,226	$ 114,266	920	$ 183,435	$ 274,901

	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	$ 9,983	$ 72,370	$ –	$ –	$ 74,340	$ 290	$ 84,323	$ 72,660
Production and intermediate-term	10,156	196,701	6,751	–	29,900	–	46,807	196,701
Agribusiness								
Loans to cooperatives	268	16,145	18,062	–	4,329	–	22,659	16,145
Processing and marketing	16,425	5,569	3,817	–	12,343	–	32,585	5,569
Farm-related business	–	19,169	–	–	24,752	–	24,752	19,169
Total agribusiness	16,693	40,883	21,879	–	41,424	–	79,996	40,883
Communication	13,099	–	–	–	–	–	13,099	–
Energy	3,518	–	–	–	–	–	3,518	–
Rural residential real estate	–	–	–	–	539	–	539	–
Total	$ 53,449	$ 309,954	$ 28,630	$ –	$ 146,203	290	$ 228,282	$ 310,244

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 27.40 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	$ 34,945	$ 145,379	$ 151,380	$ 331,704
Production and intermediate-term	255,237	364,905	268,797	888,939
Agribusiness				
Loans to cooperatives	727	2,204	1,913	4,844
Processing and marketing	39,416	446	1,582	41,444
Farm-related business	15,863	6,483	1,141	23,487
Total agribusiness	56,006	9,133	4,636	69,775
Communication	10,983	169	–	11,152
Rural residential real estate	–	817	961	1,778
Total Loans	$ 357,171	$ 520,403	$ 425,774	$ 1,303,348

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
Real estate mortgage:		
Acceptable	87.73%	89.49%
OAEM	3.02	1.46
Substandard/doubtful/loss	9.25	9.05
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	92.59%	90.91%
OAEM	5.00	5.73
Substandard/doubtful/loss	2.41	3.36
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	87.40%	96.63%
OAEM	12.58	–
Substandard/doubtful/loss	0.02	3.37
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	96.46%
OAEM	–	3.54
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	85.44%	81.63%
OAEM	12.09	15.62
Substandard/doubtful/loss	2.47	2.75
	100.00%	100.00%

	September 30, 2011	December 31, 2010
Total agribusiness:		
Acceptable	94.21%	92.36%
OAEM	4.96	6.46
Substandard/doubtful/loss	0.83	1.18
	100.00%	100.00%
Energy:		
Acceptable	–	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	–	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	84.12%	88.94%
OAEM	6.09	10.53
Substandard/doubtful/loss	9.79	0.53
	100.00%	100.00%
Total Loans:		
Acceptable	91.49%	90.74%
OAEM	4.46	4.57
Substandard/doubtful/loss	4.05	4.69
	100.00%	100.00%

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

	September 30, 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	$ 2,528	$ 6,148	$ 8,676	$ 326,667	$ 335,343	$ –
Production and intermediate-term	1,590	4,429	6,019	893,786	899,805	–
Agribusiness						
Loans to cooperatives	–	1	1	4,905	4,906	–
Processing and marketing	–	–	–	41,537	41,537	–
Farm-related business	–	–	–	23,634	23,634	–
Total agribusiness	–	1	1	70,076	70,077	–
Communication	–	–	–	11,192	11,192	–
Energy	–	–	–	–	–	–
Rural residential real estate	–	–	–	1,796	1,796	–
Total	$ 4,118	$ 10,578	$ 14,696	$ 1,303,517	$ 1,318,213	$ –

	December 31, 2010					
	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	$ 7,195	$ 2,748	$ 9,943	$ 308,214	$ 318,157	$ –
Production and intermediate-term	3,240	6,636	9,876	774,642	784,518	–
Agribusiness						
Loans to cooperatives	–	206	206	8,645	8,851	–
Processing and marketing	–	–	–	43,513	43,513	–
Farm-related business	–	–	–	20,121	20,121	–
Total agribusiness	–	206	206	72,279	72,485	–
Communication	–	–	–	13,109	13,109	–
Energy	–	–	–	3,515	3,515	–
Rural residential real estate	169	–	169	2,455	2,624	–
Total	$ 10,604	$ 9,590	$ 20,194	$ 1,174,214	$ 1,194,408	$ –

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
Nonaccrual loans:		
Real estate mortgage	$ 6,258	$ 7,758
Production and intermediate-term	4,789	6,582
Agribusiness		
Loans to cooperatives	1	210
Processing and marketing	–	–
Total agribusiness	1	210
Total nonaccrual loans	$ 11,048	$ 14,550
Accruing restructured loans:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	–
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Total agribusiness		–
Total accruing restructured loans	$ –	$ –
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	–
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Total agribusiness	–	–
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 11,048	$ 14,550
Other property owned	3,680	4,888
Total nonperforming assets	$ 14,728	$ 19,438
Nonaccrual loans as a percentage of total loans	0.85%	1.23%
Nonperforming assets as a percentage of total loans and other property owned	1.13%	1.64%
Nonperforming assets as a percentage of capital	5.56%	7.89%

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
Impaired nonaccrual loans:		
Current as to principal and interest	$ 247	$ 6
Past due	10,801	14,544
Total impaired nonaccrual loans	11,048	14,550
Impaired accrual loans:		
Total impaired accrual loans	–	–
Total impaired loans	$ 11,048	$ 14,550

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
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 4,711	$ 4,999	$ 2,524	$ 5,227	$ 21	$ 5,511	$ 97
Production and intermediate-term	2,783	3,009	836	3,087	12	3,255	57
Agribusiness							
Loans to cooperatives	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–
Total agribusiness	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 7,494	$ 8,008	$ 3,360	$ 8,314	$ 33	$ 8,766	$ 154
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 1,547	$ 2,631	$ –	$ 1,715	$ 7	$ 1,809	$ 32
Production and intermediate-term	2,006	5,687	–	2,227	9	2,347	42
Agribusiness							
Loans to cooperatives	1	165	–	1	–	1	–
Farm-related business	–	11	–	–	–	–	–
Total agribusiness	1	176	–	1	–	1	–
Rural residential real estate	–	66	–	–	–	–	–
Total	$ 3,554	$ 8,560	$ –	$ 3,943	$ 16	$ 4,157	$ 74
Total Impaired Loans							
Real estate mortgage	$ 6,258	$ 7,630	$ 2,524	$ 6,942	$ 28	$ 7,320	$ 129
Production and intermediate-term	4,789	8,696	836	5,314	21	5,602	99
Agribusiness							
Loans to cooperatives	1	165	–	1	–	1	–
Farm-related business	–	11	–	–	–	–	–
Total agribusiness	1	176	–	1	–	1	–
Rural residential real estate	–	66	–	–	–	–	–
Total	$ 11,048	$ 16,568	$ 3,360	$ 12,257	$ 49	$ 12,923	$ 228

	December 31, 2010			Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 5,008	$ 5,143	$ 2,227	$ 5,027	$ 46
Production and intermediate-term	2,359	2,439	950	2,369	22
Agribusiness					
Loans to cooperatives	–	–	–	–	–
Farm-related business	–	–	–	–	–
Total agribusiness	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 7,367	$ 7,582	$ 3,177	$ 7,396	$ 68
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,750	$ 3,661	$ –	$ 2,761	$ 25
Production and intermediate-term	4,223	7,652	–	4,239	39
Agribusiness					
Loans to cooperatives	210	174	–	211	2
Farm-related business	–	13	–	–	–
Total agribusiness	210	187	–	211	2
Rural residential real estate		66	–	–	–
Total	$ 7,183	$ 11,566	$ –	$ 7,211	$ 66
Total Impaired Loans					
Real estate mortgage	$ 7,758	$ 8,804	$ 2,227	$ 7,788	$ 71
Production and intermediate-term	6,582	10,091	950	6,608	61
Agribusiness					
Loans to cooperatives	210	174	–	211	2
Farm-related business	–	13	–	–	–
Total agribusiness	210	187	–	211	2
Rural residential real estate	–	66	–	–	–
Total	$ 14,550	$ 19,148	$ 3,177	$ 14,607	$ 134

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
Allowance for credit losses:							
Balance at December 31, 2010	$ 3,501	$ 3,425	$ 232	$ 23	$ 6	$ 9	$ 7,196
Charge-offs	(361)	(318)	(215)	–	–	–	(894)
Recoveries	43	35	1	–	–	–	79
Provision for loan losses	848	123	139	(6)	(6)	–	1,098
Balance at September 30, 2011	$ 4,031	$ 3,265	$ 157	$ 17	$ –	$ 9	$ 7,479
September 30, 2011 allowance ending balance:							
Loans individually evaluated for impairment	$ 2,524	$ 836	$ –	$ –	$ –	$ –	$ 3,360
Loans collectively evaluated for impairment	$ 1,507	$ 2,429	$ 157	$ 17	$ –	$ 9	$ 4,119
Recorded investment in loans outstanding:							
Ending Balance at September 30, 2011	$ 335,343	$ 899,805	$ 70,077	$ 11,192	$ –	$ 1,796	$ 1,318,213
September 30, 2011 recorded investment ending balance:							
Loans individually evaluated for impairment	$ 4,777	$ 6,241	$ 1	$ –	$ –	$ –	$ 11,019
Loans collectively evaluated for impairment	$ 330,566	$ 893,564	$ 70,076	$ 11,192	$ –	$ 1,796	$ 1,307,194

December 31, 2010	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at December 31, 2009	$ 2,225	$ 4,195	$ 864	$ 32	$ 9	$ 10	$ 7,335
Charge-offs	(2,170)	(5,346)	(162)	–	–	–	(7,678)
Recoveries	5	396	165	–	–	–	566
Provision for loan losses	3,441	4,180	(635)	(9)	(3)	(1)	6,973
Balance at December 31, 2010	$ 3,501	$ 3,425	$ 232	$ 23	$ 6	$ 9	$ 7,196
December 31, 2010 allowance ending balance:							
Loans individually evaluated for impairment	$ 2,227	$ 950	$ –	$ –	$ –	$ –	$ 3,177
Loans collectively evaluated for impairment	$ 1,274	$ 2,475	$ 232	$ 23	$ 6	$ 9	$ 4,019
Recorded investment in loans outstanding:							
Ending Balance at December 31, 2010	$ 318,157	$ 784,518	$ 72,485	$ 13,109	$ 3,515	$ 2,624	$ 1,194,408
December 31, 2010 recorded investment ending balance:							
Loans individually evaluated for impairment	$ 7,758	$ 6,582	$ 210	$ –	$ –	$ –	$ 14,550
Loans collectively evaluated for impairment	$ 310,399	$ 777,936	$ 72,275	$ 13,109	$ 3,515	$ 2,624	$ 1,179,858

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	$ 2,238	$ 2,171
401(k)	270	249
Other postretirement benefits	789	677
Total	$ 3,297	$ 3,097

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	$ –	$2,352	$2,353
Other postretirement benefits	329	175	504
Total	$ 329	$2,527	$2,857

Contributions in the above table include allocated estimates of funding for a multi-employer plan 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 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 has no Level 1 assets or liabilities measured at fair value on a recurring basis at September 30, 2011.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at September 30, 2011.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities 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 principal balance of the loan, a specific reserve is established.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents 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
Liabilities:				
Standby letters of credit	$ –	$ –	$ 460	$ 460
Total Liabilities	$ –	$ –	$ 460	$ 460

	December 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 488	$ 488
Total Liabilities	$ –	$ –	$ 488	$ 488

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	$ 488
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases	–
Sales	–
Issuances	–
Settlements	(28)
Transfers in and/or out of level 3	–
Balance at September 30, 2011	$ 460

	Standby Letters Of Credit
Balance at January 1, 2010	$ 586
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	(21)
Transfers in and/or out of level 3	–
Balance at September 30, 2010	$ 565

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

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

	September 30, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 3,508	$ 3,508	$ (998)
Other property owned	$ –	$ –	$ 4,005	$ 4,005	$ (460)

	December 31, 2010				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 4,190	$ 4,190	$ (9,430)
Other property owned	$ –	$ –	$ 5,093	$ 5,093	$ (964)

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
Financial assets:				
Cash	$ 5,277	$ 5,277	$ 5,615	$ 5,615
Loans, net of allowance	$ 1,310,734	$ 1,327,965	$ 1,187,212	$ 1,196,317
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 1,126,395	$ 1,144,081	$ 1,024,927	$ 1,036,245

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 and Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 9.62 percent of the issued stock of the Bank as of September 30, 2011 net of any reciprocal investment. As of that date, the Bank's assets totaled $30.3 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $295 million during the first nine months of 2011.

   In addition, the Association has an investment of $34 related to other Farm Credit institutions.

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.

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.