First South Farm Credit, ACA

SECOND QUARTER 2012

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2012 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.

Ray Makamson
Chairman of the Board

Roger F. Chappell
Chief Executive Officer

Bryan Applewhite
Chief Financial Officer

August 8, 2012

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

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

Roger F. Chappell

Roger F. Chappell
Chief Executive Officer

Bryan Applewhite

Bryan Applewhite
Chief Financial Officer

August 8, 2012

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 June 30, 2012. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2011 Annual Report of the Association. The accompanying consolidated financial statements 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 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 June 30, 2012 to December 31, 2011

The gross loan volume of the Association as of June 30, 2012, was $1,411,511, an increase of $166,912, as compared to $1,244,599 at December 31, 2011. Net loans outstanding at June 30, 2012, were $1,403,938 as compared to $1,237,714 at December 31, 2011. Net loans accounted for 92.46 percent of total assets at June 30, 2012, as compared to 90.41 percent of total assets at December 31, 2011. The increased loan volume at June 30, 2012 was primarily attributable to seasonal lending needs as compared to December 31, 2011.

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 $10,635 at June 30, 2012 from $10,651 at December 31, 2011, a decrease of $16.

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 June 30, 2012, was $7,573 compared to $6,885 at December 31, 2011, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2012

Net income for the three months ended June 30, 2012, totaled $9,077, as compared to $7,786 for the same period in 2011. The increase in bottom line net income relates to various factors including an Insurance Fund refund of $1,163 and an increase in net interest income of $1,368 (after provision for loan losses). These changes were partially offset by an increase in noninterest expense of $584 for the three months ended June 30, 2012, as compared to the same period in 2011. The increase in net interest income is primarily the result of growth in the loan portfolio and improved net interest margins.

Noninterest income for the three months ended June 30, 2012 totaled $6,475, as compared to $5,992 for the same period of 2011, an increase of $483. The increase is primarily the result of an Insurance Fund refund of $1,163, which was partially offset by a loss in other property owned of $126, as compared to a gain of $293 at June 30, 2011, a change of $419. Fees for financially related services also decreased $194 for the three months ended June 30, 2012 as compared to the same period in 2011.

Noninterest expense for the three months ended June 30, 2012 increased $584 compared to the same period of 2011. The increase is primarily attributable to an increase in salaries and employee benefits of $395, an increase in occupancy and equipment of $47, and an increase in other operating expenses of $163, partially offset by a decrease in Insurance Fund premiums of $21.

The Association recorded a provision for loan loss of $291 for the three months ended June 30, 2012, compared to a provision of $892 for the same period in 2011. The Association also recorded a provision for income taxes of $81 for the three months ended June 30, 2012, compared to a provision of $105 for the same period of 2011.

For the six months ended June 30, 2012

Net income for the six months ended June 30, 2012, totaled $15,043, as compared to $14,166 for the same period in 2011. This increase in net income relates to improved net interest margins and an Insurance Fund refund. Net interest income for the six months ended June 30, 2012 increased $1,336 or 7.2% percent, as compared to the same period in 2011. The increase in net interest income was primarily the result of increased margins along with modest growth within the portfolio.

Noninterest income for the six months ended June 30, 2012, totaled $10,895, as compared to $10,859 for the same period of 2011, an increase of $36. The decrease is primarily the result of a reduction in fees for financially related services of $185, a decrease in patronage refunds from other Farm Credit institutions of $346, and a net decrease in other property owned of $561. These decreases were primarily offset by the Insurance Fund refund of $1,163.

Noninterest expense for the six months ended June 30, 2012, increased $935 compared to the same period of 2011. The reason for the increase in noninterest expense was an increase in salaries and employee benefits of $841, an increase of $75 in occupancy and equipment, an increase of $59 in other operating expenses, partially offset by a decrease in Insurance Fund premiums of $40.

The Association recorded a provision for loan losses of $936 for the six months ended June 30, 2012, compared to a provision of $1,238 for the same period in 2011. The Association also recorded a provision for income taxes of $53 for the six months ended June 30, 2012, compared to a provision of $191 for the same period of 2011.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the AgFirst Farm Credit Bank (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 June 30, 2012 was $1,202,182 as compared to $1,054,518 at December 31, 2011, an increase of $147,664. The increase in notes payable from December 31, 2011 to June 30, 2012 is primarily related to seasonal lending in the portfolio.

CAPITAL RESOURCES

Total members' equity at June 30, 2012 and December 31, 2011 was $268,589 and $255,670, respectively. The increase of $12,919 from December 31, 2011 to June 30, 2012 is primarily attributable to the improved earnings of the Association reflected in allocated and unallocated retained earnings with a net increase of $11,195, partially offset by the amortization of $1,221 in accumulated other comprehensive. This amortization is related to pension liability changes. Total capital stock and participation certificates were $67,188 and $66,685 at June 30, 2012, and December 31, 2011, 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 June 30, 2012, the Association's permanent capital ratio, total surplus ratio and core surplus ratio were 15.43, 14.20, and 13.41 percent, respectively. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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)	June 30, 2012	December 31, 2011
	(unaudited)	(audited)
Assets		
Cash	$ 1,858	$ 5,630
Loans	1,411,511	1,244,599
Less: allowance for loan losses	7,573	6,885
Net loans	1,403,938	1,237,714
Accrued interest receivable	13,197	12,789
Investments in other Farm Credit institutions	81,987	83,963
Premises and equipment, net	7,985	7,809
Other property owned	424	1,058
Due from AgFirst Farm Credit Bank	7,373	18,191
Other assets	1,710	1,872
Total assets	$ 1,518,472	$ 1,369,026
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,202,182	$ 1,054,518
Accrued interest payable	2,362	2,386
Patronage refunds payable	4	9,139
Other liabilities	45,335	47,313
Total liabilities	1,249,883	1,113,356
Commitments and contingencies		
Members' Equity		
Protected borrower stock	85	85
Capital stock and participation certificates	67,103	66,600
Retained earnings		
Allocated	120,624	124,862
Unallocated	109,732	94,299
Accumulated other comprehensive income (loss)	(28,955)	(30,176)
Total members' equity	268,589	255,670
Total liabilities and members' equity	$ 1,518,472	$ 1,369,026

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 June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Interest Income				
Loans	$ 17,349	$ 17,000	$ 33,565	$ 32,826
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,974	7,392	13,673	14,270
Net interest income	10,375	9,608	19,892	18,556
Provision for loan losses	291	892	936	1,238
Net interest income after provision for loan losses	10,084	8,716	18,956	17,318
Noninterest Income				
Loan fees	662	621	1,429	1,495
Fees for financially related services	63	257	72	257
Patronage refunds from other Farm Credit institutions	4,713	4,801	8,365	8,711
Gains (losses) on other property owned, net	(126)	293	(267)	294
Gains (losses) on sales of premises and equipment, net	—	3	—	3
Insurance Fund refunds	1,163	—	1,163	—
Other noninterest income	—	17	133	99
Total noninterest income	6,475	5,992	10,895	10,859
Noninterest Expense				
Salaries and employee benefits	5,200	4,805	10,524	9,683
Occupancy and equipment	367	320	736	661
Insurance Fund premiums	130	151	248	288
Other operating expenses	1,704	1,541	3,247	3,188
Total noninterest expense	7,401	6,817	14,755	13,820
Income before income taxes	9,158	7,891	15,096	14,357
Provision for income taxes	81	105	53	191
Net income (loss)	$ 9,077	$ 7,786	$ 15,043	$ 14,166

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

First South Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011
Net income (loss)	$ 9,077	$ 7,786	$ 15,043	$ 14,166
Other comprehensive income net of tax				
Employee benefit plans adjustments	610	369	1,221	737
Comprehensive income	$ 9,687	$ 8,155	$ 16,264	$ 14,903

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 Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2010	$ 89	$ 66,076	$ 110,558	$ 90,530	$ (20,868)	$ 246,385
Comprehensive income				14,166	737	14,903
Protected borrower stock retired	1					1
Capital stock/participation certificates issued/(retired), net		361				361
Retained earnings retired			(4,789)			(4,789)
Patronage distribution adjustment			(944)	706		(238)
Balance at June 30, 2011	$ 90	$ 66,437	$ 104,825	$ 105,402	$ (20,131)	$ 256,623
Balance at December 31, 2011	$ 85	$ 66,600	$ 124,862	$ 94,299	$ (30,176)	$ 255,670
Comprehensive income				15,043	1,221	16,264
Capital stock/participation certificates issued/(retired), net		503				503
Retained earnings retired			(4,018)			(4,018)
Patronage distribution adjustment			(220)	390		170
Balance at June 30, 2012	$ 85	$ 67,103	$ 120,624	$ 109,732	$ (28,955)	$ 268,589

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, 2011, are contained in the 2011 Annual Report to Shareholders. These unaudited second quarter 2012 consolidated financial statements should be read in conjunction with the 2011 Annual Report to Shareholders.

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

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

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

Recently Issued Accounting Pronouncements

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

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

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

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

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

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	June 30, 2012	December 31, 2011
Real estate mortgage	$ 358,687	$ 335,784
Production and intermediate-term	953,453	835,734
Agribusiness		
Loans to cooperatives	4,095	7,867
Processing and marketing	64,574	39,289
Farm-related business	18,166	13,403
Total agribusiness	86,835	60,559
Communication	10,861	10,772
Rural residential real estate	1,675	1,750
Total Loans	$ 1,411,511	$ 1,244,599

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

June 30, 2012	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 3,558	$ 48,182	$ –	$ –	$ 65,850	$ –	$ 69,408	$ 48,182
Production and intermediate-term	4,240	174,065	17,936	–	23,683	–	45,859	174,065
Agribusiness								
Loans to cooperatives	–	771	81	–	4,142	–	4,223	771
Processing and marketing	14,781	10,530	2,058	–	12,821	–	29,660	10,530
Farm-related business	–	8,099	–	7,437	436	858	436	16,394
Total agribusiness	14,781	19,400	2,139	7,437	17,399	858	34,319	27,695
Communication	10,862	–	–	–	–	–	10,862	–
Rural residential real estate	–	–	–	–	52	–	52	–
Total	$ 33,441	$ 241,647	$ 20,075	$ 7,437	$ 106,984	858	$ 160,500	$ 249,942

December 31, 2011	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 3,780	$ 58,613	$ –	$ –	$ 69,875	$ –	$ 73,655	$ 58,613
Production and intermediate-term	25,448	191,924	7,101	–	25,438	–	57,987	191,924
Agribusiness								
Loans to cooperatives	783	1,132	3,070	–	4,049	–	7,902	1,132
Processing and marketing	15,068	4,499	2,595	–	15,528	–	33,191	4,499
Farm-related business	–	6,652	–	5,990	438	900	438	13,542
Total agribusiness	15,851	12,283	5,665	5,990	20,015	900	41,531	19,173
Communication	10,778	–	–	–	–	–	10,778	–
Rural residential real estate	–	–	–	–	53	–	53	–
Total	$ 55,857	$ 262,820	$ 12,766	$ 5,990	$ 115,381	900	$ 184,004	$ 269,710

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 June 30, 2012 and indicates that approximately 23.31 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	$ 23,745	$ 142,444	$ 192,498	$ 358,687
Production and intermediate-term	234,874	385,651	332,928	953,453
Agribusiness				
Loans to cooperatives	485	1,852	1,758	4,095
Processing and marketing	45,057	18,060	1,457	64,574
Farm-related business	14,008	2,992	1,166	18,166
Total agribusiness	59,550	22,904	4,381	86,835
Communication	10,834	8	19	10,861
Rural residential real estate	–	741	934	1,675
Total Loans	$ 329,003	$ 551,748	$ 530,760	$ 1,411,511

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

	June 30, 2012	December 31, 2011
Real estate mortgage:		
Acceptable	88.69%	88.46%
OAEM	3.39	2.87
Substandard/doubtful/loss	7.92	8.67
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	94.22%	92.20%
OAEM	3.34	4.69
Substandard/doubtful/loss	2.44	3.11
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	100.00%	88.26%
OAEM	–	11.74
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	92.31%	100.00%
OAEM	7.69	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	89.77%	100.00%
OAEM	5.48	–
Substandard/doubtful/loss	4.75	–
	100.00%	100.00%

	June 30, 2012	December 31, 2011
Total agribusiness:		
Acceptable	92.14%	98.54%
OAEM	6.86	1.46
Substandard/doubtful/loss	1.00	–
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	70.61%	84.24%
OAEM	6.10	5.77
Substandard/doubtful/loss	23.29	9.99
	100.00%	100.00%
Total Loans:		
Acceptable	92.71%	91.56%
OAEM	3.54	4.00
Substandard/doubtful/loss	3.75	4.44
	100.00%	100.00%

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

	June 30, 2012					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 2,959	$ 6,092	$ 9,051	$ 352,764	$ 361,815	$ –
Production and intermediate-term	1,355	2,356	3,711	959,538	963,249	–
Agribusiness						
Loans to cooperatives	–	–	–	4,131	4,131	–
Processing and marketing	–	–	–	64,708	64,708	–
Farm-related business	–	–	–	18,247	18,247	–
Total agribusiness	–	–	–	87,086	87,086	–
Communication	–	–	–	10,867	10,867	–
Rural residential real estate	173	–	173	1,518	1,691	–
Total	$ 4,487	$ 8,448	$ 12,935	$ 1,411,773	$ 1,424,708	$ –

	December 31, 2011					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 3,508	$ 6,245	$ 9,753	$ 329,118	$ 338,871	$ –
Production and intermediate-term	18,721	3,908	22,629	822,527	845,156	–
Agribusiness						
Loans to cooperatives	–	–	–	7,923	7,923	–
Processing and marketing	–	–	–	39,374	39,374	–
Farm-related business	–	–	–	13,528	13,528	–
Total agribusiness	–	–	–	60,825	60,825	–
Communication	–	–	–	10,777	10,777	–
Rural residential real estate	176	–	176	1,583	1,759	–
Total	$ 22,405	$ 10,153	$ 32,558	$ 1,224,830	$ 1,257,388	$ –

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

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

	June 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 5,951	$ 6,341
Production and intermediate-term	4,463	4,310
Rural residential real estate	221	–
Total nonaccrual loans	$ 10,635	$ 10,651
Accruing restructured loans:		
Real estate mortgage	$ 1,087	$ 1,121
Production and intermediate-term	1,463	1,029
Rural residential real estate	–	–
Total accruing restructured loans	$ 2,550	$ 2,150
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	–
Rural residential real estate	–	–
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 13,185	$ 12,801
Other property owned	424	1,058
Total nonperforming assets	$ 13,609	$ 13,859
Nonaccrual loans as a percentage of total loans	0.75%	0.86%
Nonperforming assets as a percentage of total loans and other property owned	0.96%	1.11%
Nonperforming assets as a percentage of capital	5.07%	5.42%

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

	June 30, 2012	December 31, 2011
Impaired nonaccrual loans:		
Current as to principal and interest	$ 2,135	$ 431
Past due	8,500	10,220
Total impaired nonaccrual loans	10,635	10,651
Impaired accrual loans:		
Restructured	2,550	2,150
90 days or more past due	–	–
Total impaired accrual loans	2,550	2,150
Total impaired loans	$ 13,185	$ 12,801

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

	June 30, 2012			Quarter Ended June 30, 2012		Six Months Ended June 30, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 4,463	$ 4,969	$ 2,224	$ 3,611	$ 2	$ 3,619	$ 7
Production and intermediate-term	3,385	3,802	824	2,738	2	2,745	5
Total	$ 7,848	$ 8,771	$ 3,048	$ 6,349	$ 4	$ 6,364	$ 12
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 2,575	$ 2,563	$ –	$ 2,082	$ 1	$ 2,088	$ 2
Production and intermediate-term	2,541	3,780	–	2,056	1	2,060	2
Agribusiness							
Farm-related business	–	9	–	–	–	–	–
Total agribusiness	–	9	–	–	–	–	–
Rural residential real estate	221	279	–	179	–	179	–
Total	$ 5,337	$ 6,631	$ –	$ 4,317	$ 2	$ 4,327	$ 4
Total Impaired Loans							
Real estate mortgage	$ 7,038	$ 7,532	$ 2,224	$ 5,693	$ 3	$ 5,707	$ 9
Production and intermediate-term	5,926	7,582	824	4,794	3	4,805	7
Agribusiness							
Farm-related business	–	9	–	–	–	–	–
Total agribusiness	–	9	–	–	–	–	–
Rural residential real estate	221	279	–	179	–	179	–
Total	$ 13,185	$ 15,402	$ 3,048	$ 10,666	$ 6	$ 10,691	$ 16

	December 31, 2011			Year Ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 5,026	$ 5,416	$ 2,382	$ 4,943	$ 98
Production and intermediate-term	2,292	2,539	687	2,253	44
Total	$ 7,318	$ 7,955	$ 3,069	$ 7,196	$ 142
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,436	$ 2,428	$ –	$ 2,394	$ 47
Production and intermediate-term	3,047	4,935	–	2,997	59
Agribusiness					
Farm-related business	–	10	–	–	–
Total agribusiness	–	10	–	–	–
Rural residential real estate	–	67	–	–	–
Total	$ 5,483	$ 7,440	$ –	$ 5,391	$ 106
Total Impaired Loans					
Real estate mortgage	$ 7,462	$ 7,844	$ 2,382	$ 7,337	$ 145
Production and intermediate-term	5,339	7,474	687	5,250	103
Agribusiness					
Farm-related business	–	10	–	–	–
Total agribusiness	–	10	–	–	–
Rural residential real estate	–	67	–	–	–
Total	$ 12,801	$ 15,395	$ 3,069	$ 12,587	$ 248

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at June 30, 2012.

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at March 31, 2012	$ 3,972	$ 3,056	$ 236	$ 17	$ –	$ 10	$ 7,291
Charge-offs	(101)	(20)	–	–	–	–	(121)
Recoveries	20	92	–	–	–	–	112
Provision for loan losses	38	266	(19)	(2)	–	8	291
Balance at June 30, 2012	$ 3,929	$ 3,394	$ 217	$ 15	$ –	$ 18	$ 7,573
Balance at December 31, 2011	$ 3,803	$ 2,969	$ 90	$ 14	$ –	$ 9	$ 6,885
Charge-offs	(112)	(426)	–	–	–	–	(538)
Recoveries	22	268	–	–	–	–	290
Provision for loan losses	216	583	127	1	–	9	936
Balance at June 30, 2012	$ 3,929	$ 3,394	$ 217	$ 15	$ –	$ 18	$ 7,573
Balance at March 31, 2011	$ 4,138	$ 3,081	$ 185	$ 19	$ 5	$ 6	$ 7,434
Charge-offs	(233)	(43)	(215)	–	–	–	(491)
Recoveries	–	32	1	–	–	–	33
Provision for loan losses	32	714	148	(2)	–	–	892
Balance at June 30, 2011	$ 3,937	$ 3,784	$ 119	$ 17	$ 5	$ 6	$ 7,868
Balance at December 31, 2010	$ 3,501	$ 3,425	$ 232	$ 23	$ 6	$ 9	$ 7,196
Charge-offs	(334)	(52)	(215)	–	–	–	(601)
Recoveries	–	33	2	–	–	–	35
Provision for loan losses	770	378	100	(6)	(1)	(3)	1,238
Balance at June 30, 2011	$ 3,937	$ 3,784	$ 119	$ 17	$ 5	$ 6	$ 7,868
Loans individually evaluated for impairment	$ 2,224	$ 824	$ –	$ –	$ –	$ –	$ 3,048
Loans collectively evaluated for impairment	1,705	2,570	217	15	–	18	4,525
Balance at June 30, 2012	$ 3,929	$ 3,394	$ 217	$ 15	$ –	$ 18	$ 7,573
Loans individually evaluated for impairment	$ 2,382	$ 687	$ –	$ –	$ –	$ –	$ 3,069
Loans collectively evaluated for impairment	1,421	2,282	90	14	–	9	3,816
Balance at December 31, 2011	$ 3,803	$ 2,969	$ 90	$ 14	$ –	$ 9	$ 6,885
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	$ 5,904	$ 4,458	$ –	$ –	$ –	$ –	$ 10,362
Loans collectively evaluated for impairment	355,911	958,791	87,086	10,867	–	1,691	1,414,346
Ending balance at June 30, 2012	$ 361,815	$ 963,249	$ 87,086	$ 10,867	$ –	$ 1,691	$ 1,424,708
Loans individually evaluated for impairment	$ 6,341	$ 4,202	$ –	$ –	$ –	$ –	$ 10,543
Loans collectively evaluated for impairment	332,530	840,954	60,825	10,777	–	1,759	1,246,845
Ending balance at December 31,	$ 338,871	$ 845,156	$ 60,825	$ 10,777	$ –	$ 1,759	$ 1,257,388

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There was no activity that occurred during the periods presented, related to TDRs.

	Three months ended June 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Production and intermediate-term	$ –	$ 144	$ –	$ 144
Total	$ –	$ 144	$ –	$ 144

Three months ended June 30, 2012						
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Production and intermediate-term	$ –	$ 144	$ –	$ 144	$ –	$ –
Total	$ –	$ 144	$ –	$ 144	$ –	$ –

Six months ended June 30, 2012				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Production and intermediate-term	$ –	$ 144	$ –	$ 144
Total	$ –	$ 144	$ –	$ 144

Six months ended June 30, 2012						
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Production and intermediate-term	$ –	$ 144	$ –	$ 144	$ –	$ –
Total	$ –	$ 144	$ –	$ 144	$ –	$ –

Three months ended June 30, 2011				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 218	$ 785	$ –	$ 1,003
Total	$ 218	$ 785	$ –	$ 1,003

Three months ended June 30, 2011						
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 218	$ 785	$ –	$ 1,003	$ (15)	$ –
Total	$ 218	$ 785	$ –	$ 1,003	$ (15)	$ –

Six months ended June 30, 2011				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 218	$ 785	$ –	$ 1,003
Total	$ 218	$ 785	$ –	$ 1,003

Six months ended June 30, 2011						
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 218	$ 785	$ –	$ 1,003	$ (15)	$ –
Total	$ 218	$ 785	$ –	$ 1,003	$ (15)	$ –

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

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

TDRs outstanding at period end totaled $2,550, of which none were in nonaccrual status.

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2012	2011
Pension	$ 2,154	$ 1,492
401(k)	186	176
Other postretirement benefits	444	526
Total	$ 2,784	$ 2,194

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

	Actual YTD Through 6/30/12	Projected Contributions For Remainder of 2012	Projected Total Contributions 2012
Pension	$ –	$ 2,856	$ 2,856
Other postretirement benefits	252	238	490
Total	$ 252	$ 3,094	$ 3,346

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, 2012.

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

NOTE 4 – FAIR VALUE MEASUREMENT

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

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 9.10 percent of the issued stock of the Bank as of June 30, 2012 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.9 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $253 million for the first six months of 2012. In addition, the Association has an investment of $50 related to other Farm Credit institutions.

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

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association has no Level 1 assets or liabilities measured at fair value on a recurring basis at June 30, 2012. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

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

2 assets or liabilities measured at fair value on a recurring basis at June 30, 2012.

The carrying value of accrued interest approximates its fair value.

Level 3

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

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

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

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

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

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

Information about Sensitivity to Changes in Significant Unobservable Inputs

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

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

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

	Standby Letters Of Credit
Balance at January 1, 2012	$ 403
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income (loss)	–
Purchases	–
Sales	–
Issuances	–
Settlements	(78)
Transfers in and/or out of level 3	–
Balance at June 30, 2012	$ 325

	Standby Letters Of Credit
Balance at January 1, 2011	$ 488
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income (loss)	–
Purchases	–
Sales	–
Issuances	–
Settlements	(57)
Transfers in and/or out of level 3	–
Balance at June 30, 2011	$ 431

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

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

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment rates Probability of default Loss severity Annualized volatility
Accrued interest	Carrying value	Coupon interest rates
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment rates Probability of default Loss severity Annualized volatility

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

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

	June 30, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Comprehensive Income
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	$ –
Liabilities:						
Standby letters of credit	$ 325	$ –	$ –	$ 325	$ 325	$ –
Recurring Liabilities	$ 325	$ –	$ –	$ 325	$ 325	$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 7,587	$ –	$ –	$ 7,587	$ 7,587	$ (227)
Other property owned	424	–	–	488	488	(258)
Nonrecurring Assets	$ 8,011	$ –	$ –	$ 8,075	$ 8,075	$ (485)
Other Financial Instruments						
Assets:						
Cash	$ 1,858	$ 1,858	$ –	$ –	$ 1,858	
Loans	1,396,351	–	–	1,400,113	1,400,113	
Accrued interest receivable	13,197	–	13,197	–	13,197	
Other Assets	$ 1,411,406	$ 1,858	$ 13,197	$ 1,400,113	$ 1,415,168	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,202,182	$ –	$ –	$ 1,208,228	$ 1,208,228	
Accrued interest payable	2,362	–	2,362	–	2,362	
Other Liabilities	$ 1,204,544	$ –	$ 2,362	$ 1,208,228	$ 1,210,590	

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

	December 31, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 403	$ 403
Total Liabilities	$ –	$ –	$ 403	$ 403

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2011 for each of the fair value hierarchy values are summarized below.

	December 31, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 4,170	$ 4,170	$ 1,267
Other property owned	$ –	$ –	$ 1,003	$ 1,003	$ (397)

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

	December 31, 2011	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 5,630	$ 5,630
Loans, net of allowance	$ 1,237,714	$ 1,255,966
Accrued interest receivable	$ 12,789	$ 12,789
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 1,056,904	$ 1,072,472

NOTE 5 - ACCUMULATED OTHER COMPREHENSIVE INCOME

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

		Employee Benefit Plans
Balance at December 31, 2011	$	(30,176)
Other comprehensive income		1,221
Balance at June 30, 2012	$	(28,955)
Balance at December 31, 2010	$	(20,868)
Other comprehensive income		737
Balance at June 30, 2011	$	(20,131)

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Other Comprehensive Income and Reclassification Amounts:				
Amounts reclassified to net periodic pension costs	$ 610	$ 369	$ 1,221	$ 737
Net gain (loss) during period	–	–	–	–
Defined benefit post retirement plans, net	$ 610	$ 369	$ 1,221	$ 737

NOTE 6 – SUBSEQUENT EVENTS

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