

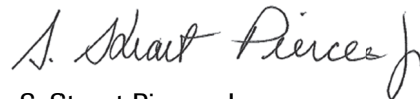
SECOND QUARTER 2012

TABLE OF CONTENTS

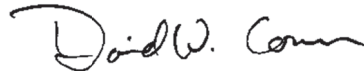
Report on Internal Control Over Financial Reporting.....	2
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	3
Consolidated Financial Statements	
Consolidated Balance Sheets.....	6
Consolidated Statements of Comprehensive Income.....	7
Consolidated Statements of Changes in Members' Equity.....	8
Notes to the Consolidated Financial Statements.....	9

CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2012 quarterly report of AgCarolina Financial, 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.



S. Stuart Pierce, Jr.
Chairman of the Board



David W. Corum
President
Chief Executive Officer



Matthew J. Currin
Senior Vice President
Chief Financial Officer

August 8, 2012

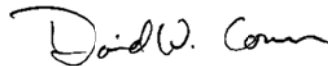
Report on Internal Control Over Financial Reporting

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.



David W. Corum
President
Chief Executive Officer



Matthew J. Currin
Senior Vice President
Chief Financial Officer

August 8, 2012

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 AgCarolina Financial (Association) for the six months ended June 30, 2012. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2011 annual report of the Association.

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. Predominant commodities in the portfolio are tobacco, cotton, and forestry, which constitute \$462,282, or 49.15 percent, of the loan portfolio as of June 30, 2012. Other major farm commodities include hogs, poultry, landlords, soybeans, corn, and farm services. 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 a given commodity.

The net loan volume of the Association as of June 30, 2012, was \$905,808, an increase of \$59,518 or 7.03 percent as compared to \$846,290 at December 31, 2011. Net loans accounted for 92.13 percent of total assets at June 30, 2012 as compared to 89.03 percent of total assets at December 31, 2011. The decrease in net loan volume during the reporting period is primarily attributed to seasonal lending. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak in August and declines in the fall and winter months as farm commodities are marketed and proceeds are applied to the operating loans.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans decreased from \$34,948 at December 31, 2011 to \$29,102 at June 30, 2012, for a decrease of 16.73 percent. The decrease is due to charge offs taken during the second quarter of 2012 and from resolution of accounts. 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. During the

quarter the Association increased the allowance for loan losses by \$205 through a provision for loan losses. The allowance for loan losses at June 30, 2012 was \$12,951 as compared to \$12,890 at December 31, 2011 and was considered by management to be adequate to cover possible losses. The ratio of the allowance for loan losses to loans at June 30, 2012 was 1.41 percent.

Other investments consists of tobacco buyout Successor-in-Interest Contracts (SIIC) which come under the FCA's Mission Related Investments. Under the SIIC, the tobacco quota holders and producers may assign their rights to receive tobacco buyout contract payments to a third party. The third party, or successor, purchases the entire contract and all related rights and obligations associated with the contract. As of June 30, 2012 the Association held tobacco buyout SIIC of \$30,327, a decrease of \$14,998 or 33.09%, as compared to \$45,325 as of December 31, 2011. The decrease is due to the receipt of the scheduled annual payment from the government.

Other property owned was \$1,283 as of June 30, 2012, a decrease of \$260, or 16.85 percent, from the balance of \$1,543 as of December 31, 2011. The decrease in other property owned is due to the sale of one property during the quarter. The Association is actively marketing all properties for resale.

RESULTS OF OPERATIONS

For the three months ended June 30, 2012

Net income for the three months ended June 30, 2012 totaled \$5,644, an increase of \$3,365, or 147.65 percent, as compared to the same period of 2011. The primary reason for the increase in net income as compared to the previous period is due to a \$905 increase in noninterest income, and a \$2,709 decrease in the provision for losses. At June 30, 2012, total interest income decreased by \$825 compared to June 30, 2011. The decrease in interest income is due primarily to reduced interest rates as compared to the same period in 2011.

Interest income from nonaccrual loans was \$130 for the three months ended June 30, 2012, a decrease of \$61 from the same period of 2011. Interest expense decreased \$945 for the three months ended June 30, 2012, as compared to the same period of 2011. The decrease in interest expense is

attributed to a decline in funding rates and from the use of Association earnings to fund loans.

Noninterest income for the three months ended June 30, 2012 totaled \$3,965 as compared to \$3,036 for the same period of 2011, an increase of \$920. The increase is primarily due to Insurance refunds from the FCSIC that was offset by a decrease in Patronage refunds from other Farm Credit Institutions.

Noninterest expense for the three months ended June 30, 2012 was \$4,257, an increase of \$384 as compared to the same period of 2011. The reason for the increase is due primarily to an increase in salaries and employee benefits and other operating expenses. Salaries and employee benefits totaled \$3,204 for the three months ended June 30, 2012, for an increase of \$405, or 14.47 percent, as compared to the same period of 2011. The increase in salaries and employee benefits is primarily due to separation payments for former staff.

For the six months ended June 30, 2012

Net income for the six months ended June 30, 2012 totaled \$8,453, an increase of \$2,524, or 42.57 percent, as compared to the same period of 2011. The primary reasons for the increase in net income is due to an decrease in the provision for loan losses of \$2,444 over the comparable period from last year, and \$1,105 in refunds from the Farm Credit System Insurance Corporation (FCSIC) that were received in 2012. These were offset by an increase in noninterest expense of \$813. At June 30, 2012, total interest income decreased by \$1,677 compared to the same period in 2011. The decrease in interest income is due to a decline in interest rates as compared to the same period in 2011.

Interest income from nonaccrual loans was \$208 as of June 30, 2012, a decrease of \$25 from the same period of 2011. Interest expense decreased \$1,760 for the first six months in 2012, as compared to the comparable period of 2011. The decrease in interest expense is also attributed to the decline in interest rates.

Noninterest income for the six months ended June 30, 2012 totaled \$6,664 as compared to \$5,854 for the same period of 2011, an increase of \$810. The increase is primarily due to the 2012 Insurance Fund refund of \$1,105 that was offset by a decline in other noninterest income areas.

Noninterest expense for the six months ended June 30, 2012 was \$8,875, an increase of \$813 as compared to the same period of 2011. Salaries and employee benefits totaled \$6,531 for the six months ended June 30, 2012, for an increase of \$717 or 12.33 percent, as compared to the same period of 2011. The increase is primarily due to separation payments for former staff.

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with AgFirst Farm Credit Bank (Bank) and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

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 funds are advanced by the Bank 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 \$779,893 as compared to \$744,285 at December 31, 2011. The 4.78 percent increase during the period is primarily attributed to loan seasonality.

The Association has no lines of credit outstanding with third parties as of June 30, 2012.

CAPITAL RESOURCES

Total members' equity at June 30, 2012, increased 1.04 percent to \$187,487 from the December 31, 2011, total of \$185,566. The increase is attributed to the increase in retained earnings that was offset by a decrease in preferred stock. Preferred stock was \$26,013 as of June 30, 2012, as compared to \$32,344 on December 31, 2011, for a decrease of 19.57 percent.

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 total surplus ratio and core surplus ratio were both 16.28 percent, and the permanent capital ratio was 19.91 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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-919-250-9500, writing Linda Strickland, AgCarolina Financial, ACA, P. O. Box 14789, Raleigh, NC 27620, or accessing the website, www.agcarolina.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

AgCarolina Financial, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2012 <i>(unaudited)</i>	December 31, 2011 <i>(audited)</i>
Assets		
Cash	\$ 1,061	\$ 3,191
Loans	918,759	859,180
Less: allowance for loan losses	12,951	12,890
Net loans	905,808	846,290
Other investments	30,327	45,325
Accrued interest receivable	11,150	14,043
Investments in other Farm Credit institutions	13,863	13,863
Premises and equipment, net	8,652	8,706
Other property owned	1,283	1,543
Due from AgFirst Farm Credit Bank	2,766	7,809
Other assets	8,257	9,848
Total assets	\$ 983,167	\$ 950,618
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 779,893	\$ 744,285
Accrued interest payable	1,451	1,617
Patronage refunds payable	161	4,725
Other liabilities	14,175	14,425
Total liabilities	795,680	765,052
Commitments and contingencies		
Members' Equity		
Preferred stock	26,013	32,344
Member capital stock and participation certificates	3,265	3,244
Retained earnings		
Allocated	86,646	86,845
Unallocated	71,563	63,133
Total members' equity	187,487	185,566
Total liabilities and members' equity	\$ 983,167	\$ 950,618

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

AgCarolina Financial, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Interest Income				
Loans	\$ 10,233	\$ 10,892	\$ 19,965	\$ 21,336
Other investments	369	535	762	1,068
Total interest income	10,602	11,427	20,727	22,404
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	4,452	5,397	8,793	10,553
Net interest income	6,150	6,030	11,934	11,851
Provision for loan losses	205	2,914	1,270	3,714
Net interest income after provision for loan losses	5,945	3,116	10,664	8,137
Noninterest Income				
Loan fees	910	910	1,996	2,001
Fees for financially related services	107	107	299	309
Patronage refunds from other Farm Credit institutions	1,908	2,038	3,242	3,444
Gains (losses) on other property owned, net	(88)	(57)	(60)	(57)
Gains (losses) on sales of premises and equipment, net	17	2	17	13
Insurance Fund refunds	1,105	—	1,105	—
Other noninterest income (expense)	(3)	36	65	144
Total noninterest income	3,956	3,036	6,664	5,854
Noninterest Expense				
Salaries and employee benefits	3,204	2,799	6,531	5,814
Occupancy and equipment	277	290	549	569
Insurance Fund premiums	93	117	181	225
Other operating expenses	683	667	1,614	1,454
Total noninterest expense	4,257	3,873	8,875	8,062
Net income	5,644	2,279	8,453	5,929
Other comprehensive income	—	—	—	—
Comprehensive income	\$ 5,644	\$ 2,279	\$ 8,453	\$ 5,929

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

AgCarolina Financial, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Preferred Stock	Member Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2010	\$ 24,558	\$ 3,180	\$ 79,014	\$ 62,739	\$ 169,491
Comprehensive income				5,929	5,929
Preferred stock issued(retired), net	1,439				1,439
Member capital stock/participation certificates issued/(retired), net		100			100
Dividends declared/paid	225			(225)	—
Patronage distribution adjustment			400	(400)	—
Balance at June 30, 2011	<u>\$ 26,222</u>	<u>\$ 3,280</u>	<u>\$ 79,414</u>	<u>\$ 68,043</u>	<u>\$ 176,959</u>
Balance at December 31, 2011	\$ 32,344	\$ 3,244	\$ 86,845	\$ 63,133	\$ 185,566
Comprehensive income				8,453	8,453
Preferred stock issued(retired), net	(6,553)				(6,553)
Member capital stock/participation certificates issued/(retired), net		21			21
Dividends declared/paid	222			(222)	—
Patronage distribution adjustment			(199)	199	—
Balance at June 30, 2012	<u>\$ 26,013</u>	<u>\$ 3,265</u>	<u>\$ 86,646</u>	<u>\$ 71,563</u>	<u>\$ 187,487</u>

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

Notes to the Consolidated Financial Statements

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

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

The accompanying financial statements include the accounts of AgCarolina Financial, 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 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." These new disclosures about TDRs were effective for fiscal years ending after December 15, 2011, and for interim periods within those fiscal years. 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	\$ 363,100	\$ 364,365
Production and intermediate-term	512,120	454,208
Agribusiness		
Loans to cooperatives	774	907
Processing and marketing	8,537	11,801
Farm-related business	9,637	5,315
Total agribusiness	18,948	18,023
Communication	1,372	1,267
Rural residential real estate	23,219	21,317
Total Loans	\$ 918,759	\$ 859,180

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	\$ 2,913	\$ 21,912	\$ 1,796	\$ 1,361	\$ -	\$ -	\$ 4,709	\$ 23,273
Production and intermediate-term	23,697	39,362	778	10,857	20,301	-	44,776	50,219
Agribusiness								
Loans to cooperatives	682	-	-	-	-	-	682	-
Processing and marketing	7,418	-	1,121	-	-	-	8,539	-
Farm-related business	291	-	-	-	-	-	291	-
Total agribusiness	8,391	-	1,121	-	-	-	9,512	-
Communication	1,372	-	-	-	-	-	1,372	-
Total	\$ 36,373	\$ 61,274	\$ 3,695	\$ 12,218	\$ 20,301	\$ -	\$ 60,369	\$ 73,492

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	\$ 2,940	\$ 23,321	\$ 2,032	\$ -	\$ -	\$ -	\$ 4,972	\$ 23,321
Production and intermediate-term	26,868	36,508	431	7,474	12,084	-	39,383	43,982
Agribusiness								
Loans to cooperatives	827	-	-	-	-	-	827	-
Processing and marketing	10,685	-	1,121	-	-	-	11,806	-
Farm-related business	874	-	-	-	-	-	874	-
Total agribusiness	12,386	-	1,121	-	-	-	13,507	-
Communication	1,267	-	-	-	-	-	1,267	-
Total	\$ 43,461	\$ 59,829	\$ 3,584	\$ 7,474	\$ 12,084	\$ -	\$ 59,129	\$ 67,303

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 28.61 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	\$ 45,515	\$ 105,654	\$ 211,931	\$ 363,100
Production and intermediate-term	203,591	182,408	126,121	512,120
Agribusiness				
Loans to cooperatives	681	93	-	774
Processing and marketing	7,164	1,181	192	8,537
Farm-related business	3,312	3,906	2,419	9,637
Total agribusiness	11,157	5,180	2,611	18,948
Communication	1,372	-	-	1,372
Rural residential real estate	1,253	2,518	19,448	23,219
Total Loans	\$ 262,888	\$ 295,760	\$ 360,111	\$ 918,759

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		June 30, 2012	December 31, 2011
Real estate mortgage:			Total agribusiness:		
Acceptable	83.83%	81.76%	Acceptable	68.64%	81.17%
OAEM	6.20	6.92	OAEM	31.36	15.77
Substandard/doubtful/loss	9.97	11.32	Substandard/doubtful/loss	-	3.06
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Communication:		
Acceptable	92.09%	89.88%	Acceptable	100.00%	100.00%
OAEM	3.84	5.50	OAEM	-	-
Substandard/doubtful/loss	4.07	4.62	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Agribusiness:			Rural residential real estate:		
Loans to cooperatives:			Acceptable	93.54%	90.01%
Acceptable	100.00%	100.00%	OAEM	2.35	4.64
OAEM	-	-	Substandard/doubtful/loss	4.11	5.35
Substandard/doubtful/loss	-	-		<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>			
Processing and marketing:			Total Loans:		
Acceptable	87.87%	82.37%	Acceptable	88.39%	86.28%
OAEM	12.13	12.95	OAEM	5.30	6.28
Substandard/doubtful/loss	-	4.68	Substandard/doubtful/loss	6.31	7.44
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business:					
Acceptable	49.20%	75.29%			
OAEM	50.80	24.71			
Substandard/doubtful/loss	-	-			
	<u>100.00%</u>	<u>100.00%</u>			

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	\$ 4,808	\$ 6,220	\$ 11,028	\$ 356,396	\$ 367,424	\$ -
Production and intermediate-term	1,899	5,077	6,976	511,754	518,730	-
Agribusiness						
Loans to cooperatives	-	-	-	777	777	-
Processing and marketing	-	-	-	8,562	8,562	-
Farm-related business	-	-	-	9,722	9,722	-
Total agribusiness	-	-	-	19,061	19,061	-
Communication	-	-	-	1,373	1,373	-
Rural residential real estate	229	153	382	22,939	23,321	-
Total	\$ 6,936	\$ 11,450	\$ 18,386	\$ 911,523	\$ 929,909	\$ -

	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	\$ 4,280	\$ 13,879	\$ 18,159	\$ 351,356	\$ 369,515	\$ -
Production and intermediate-term	3,030	6,503	9,533	453,420	462,953	-
Agribusiness						
Loans to cooperatives	-	-	-	908	908	-
Processing and marketing	-	-	-	11,829	11,829	-
Farm-related business	27	-	27	5,312	5,339	-
Total agribusiness	27	-	27	18,049	18,076	-
Communication	-	-	-	1,267	1,267	-
Rural residential real estate	301	342	643	20,769	21,412	-
Total	\$ 7,638	\$ 20,724	\$ 28,362	\$ 844,861	\$ 873,223	\$ -

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	\$ 18,261	\$ 21,429
Production and intermediate-term	10,194	12,609
Rural residential real estate	647	910
Total nonaccrual loans	<u>\$ 29,102</u>	<u>\$ 34,948</u>
Accruing restructured loans:		
Real estate mortgage	\$ 2,777	\$ 3,574
Production and intermediate-term	65	-
Rural residential real estate	-	-
Total accruing restructured loans	<u>\$ 2,842</u>	<u>\$ 3,574</u>
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	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	\$ 31,944	\$ 38,522
Other property owned	1,283	1,543
Nonperforming assets	<u>\$ 33,227</u>	<u>\$ 40,065</u>
Nonaccrual loans as a percentage of total loans	3.17%	4.07%
Nonperforming assets as a percentage of total loans and other property owned	3.61%	4.65%
Nonperforming assets as a percentage of capital	<u>17.72%</u>	<u>21.59%</u>

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	\$ 16,158	\$ 13,773
Past due	12,944	21,175
Total impaired nonaccrual loans	<u>29,102</u>	<u>34,948</u>
Impaired accrual loans:		
Restructured	2,842	3,574
90 days or more past due	-	-
Total impaired accrual loans	<u>2,842</u>	<u>3,574</u>
Total impaired loans	<u>\$ 31,944</u>	<u>\$ 38,522</u>

The following tables present additional information concerning impaired loans and related allowance by loan type at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	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	\$ 10,064	\$ 11,338	\$ 3,193	\$ 10,467	\$ 43	\$ 10,995	\$ 67
Production and intermediate-term	1,008	1,269	437	1,048	4	1,101	7
Rural residential real estate	-	-	-	-	-	-	-
Total	<u>\$ 11,072</u>	<u>\$ 12,607</u>	<u>\$ 3,630</u>	<u>11,515</u>	<u>47</u>	<u>12,096</u>	<u>74</u>
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 10,974	\$ 13,964	\$ -	\$ 11,413	\$ 46	\$ 11,988	\$ 73
Production and intermediate-term	9,251	14,073	-	9,621	39	10,107	61
Rural residential real estate	647	859	-	673	3	707	5
Total	<u>\$ 20,872</u>	<u>\$ 28,896</u>	<u>\$ -</u>	<u>\$ 21,707</u>	<u>\$ 88</u>	<u>\$ 22,802</u>	<u>\$ 139</u>
Total impaired loans:							
Real estate mortgage	\$ 21,038	\$ 25,302	\$ 3,193	\$ 21,880	\$ 89	\$ 22,983	\$ 140
Production and intermediate-term	10,259	15,342	437	10,669	43	11,208	68
Rural residential real estate	647	859	-	673	3	707	5
Total	<u>\$ 31,944</u>	<u>\$ 41,503</u>	<u>\$ 3,630</u>	<u>\$ 33,222</u>	<u>\$ 135</u>	<u>\$ 34,898</u>	<u>\$ 213</u>

	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	\$ 10,708	\$ 11,845	\$ 3,438	\$ 9,856	\$ 153
Production and intermediate-term	3,807	4,608	653	3,504	54
Rural residential real estate	184	188	1	169	3
Total	<u>\$ 14,699</u>	<u>\$ 16,641</u>	<u>\$ 4,092</u>	<u>\$ 13,529</u>	<u>\$ 210</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 14,295	\$ 17,352	\$ -	\$ 13,157	\$ 203
Production and intermediate-term	8,802	13,301	-	8,101	126
Rural residential real estate	726	860	-	669	10
Total	<u>\$ 23,823</u>	<u>\$ 31,513</u>	<u>\$ -</u>	<u>\$ 21,927</u>	<u>\$ 339</u>
Total impaired loans:					
Real estate mortgage	\$ 25,003	\$ 29,197	\$ 3,438	\$ 23,013	\$ 356
Production and intermediate-term	12,609	17,909	653	11,605	180
Rural residential real estate	910	1,048	1	838	13
Total	<u>\$ 38,522</u>	<u>\$ 48,154</u>	<u>\$ 4,092</u>	<u>\$ 35,456</u>	<u>\$ 549</u>

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	Rural Residential Real Estate	Total
Allowance for credit losses:						
Balance at March 31, 2012	\$ 7,381	\$ 5,279	\$ 219	\$ 15	\$ 244	\$ 13,138
Charge-offs	(431)	(17)	-	-	-	(448)
Recoveries	-	56	-	-	-	56
Provision for loan losses	(73)	314	(27)	(1)	(8)	205
Balance at June 30, 2012	<u>\$ 6,877</u>	<u>\$ 5,632</u>	<u>\$ 192</u>	<u>\$ 14</u>	<u>\$ 236</u>	<u>\$ 12,951</u>
Balance at December 31, 2011	\$ 7,162	\$ 5,317	\$ 182	\$ 13	\$ 216	\$ 12,890
Charge-offs	(1,267)	(49)	-	-	-	(1,316)
Recoveries	1	106	-	-	-	107
Provision for loan losses	981	258	10	1	20	1,270
Balance at June 30, 2012	<u>\$ 6,877</u>	<u>\$ 5,632</u>	<u>\$ 192</u>	<u>\$ 14</u>	<u>\$ 236</u>	<u>\$ 12,951</u>
Balance at March 31, 2011	\$ 6,251	\$ 4,899	\$ 262	\$ 13	\$ 188	\$ 11,613
Charge-offs	(58)	(88)	-	-	1	(145)
Recoveries	22	9	-	-	1	32
Provision for loan losses	521	2,448	(50)	-	(5)	2,914
Balance at June 30, 2011	<u>\$ 6,736</u>	<u>\$ 7,268</u>	<u>\$ 212</u>	<u>\$ 13</u>	<u>\$ 185</u>	<u>\$ 14,414</u>
Balance at December 31, 2010	\$ 6,094	\$ 5,021	\$ 277	\$ 13	\$ 179	\$ 11,584
Charge-offs	(391)	(528)	-	-	(8)	(927)
Recoveries	22	19	-	-	2	43
Provision for loan losses	1,011	2,756	(65)	-	12	3,714
Balance at June 30, 2011	<u>\$ 6,736</u>	<u>\$ 7,268</u>	<u>\$ 212</u>	<u>\$ 13</u>	<u>\$ 185</u>	<u>\$ 14,414</u>
Loans individually evaluated for impairment	\$ 3,193	\$ 437	\$ -	\$ -	\$ -	\$ 3,630
Loans collectively evaluated for impairment	3,684	5,195	192	14	236	9,321
Balance at June 30, 2012	<u>\$ 6,877</u>	<u>\$ 5,632</u>	<u>\$ 192</u>	<u>\$ 14</u>	<u>\$ 236</u>	<u>\$ 12,951</u>
Loans individually evaluated for impairment	\$ 3,439	\$ 653	\$ -	\$ -	\$ -	\$ 4,092
Loans collectively evaluated for impairment	3,723	4,664	182	13	216	8,798
Balance at December 31, 2011	<u>\$ 7,162</u>	<u>\$ 5,317</u>	<u>\$ 182</u>	<u>\$ 13</u>	<u>\$ 216</u>	<u>\$ 12,890</u>
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	\$ 18,316	\$ 10,349	\$ 1,299	\$ -	\$ 715	\$ 30,679
Loans collectively evaluated for impairment	349,108	508,381	17,762	1,373	22,606	899,230
Ending balance at June 30, 2012	<u>\$ 367,424</u>	<u>\$ 518,730</u>	<u>\$ 19,061</u>	<u>\$ 1,373</u>	<u>\$ 23,321</u>	<u>\$ 929,909</u>
Loans individually evaluated for impairment	\$ 25,003	\$ 12,609	\$ -	\$ -	\$ 910	\$ 38,522
Loans collectively evaluated for impairment	344,512	450,344	18,076	1,267	20,502	834,701
Ending balance at December 31, 2011	<u>\$ 369,515</u>	<u>\$ 462,953</u>	<u>\$ 18,076</u>	<u>\$ 1,267</u>	<u>\$ 21,412</u>	<u>\$ 873,223</u>

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about activity that occurred during the periods presented, related to TDRs. The table does not include purchased credit impaired loans.

Three months ended June 30, 2012						
Pre-modification Outstanding Recorded Investment						
	Interest Concessions	Principal Concessions	Other Concessions			Total
Troubled debt restructurings:						
Real estate mortgage	\$ -	\$ -	\$ 17	\$ 17	\$	17
Production and intermediate-term	-	480	67	547	\$	547
Total	\$ -	\$ 480	\$ 84	\$ 564	\$	564

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:						
Real estate mortgage	\$ -	\$ -	\$ 17	\$ 17	\$ -	\$ -
Production and intermediate-term	-	480	67	547	3	(3)
Total	\$ -	\$ 480	\$ 84	\$ 564	\$ 3	\$ (3)

Six months ended June 30, 2012						
Pre-modification Outstanding Recorded Investment						
	Interest Concessions	Principal Concessions	Other Concessions			Total
Troubled debt restructurings:						
Real estate mortgage	\$ -	\$ 82	\$ 17	\$ 99	\$	99
Production and intermediate-term	25	480	67	572	\$	572
Total	\$ 25	\$ 562	\$ 84	\$ 671	\$	671

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:						
Real estate mortgage	\$ -	\$ 93	\$ 17	\$ 110	\$ -	\$ -
Production and intermediate-term	30	480	67	577	3	(3)
Total	\$ 30	\$ 573	\$ 84	\$ 687	\$ 3	\$ (3)

Three months ended June 30, 2011						
Pre-modification Outstanding Recorded Investment						
	Interest Concessions	Principal Concessions	Other Concessions			Total
Troubled debt restructurings:						
Real estate mortgage	\$ -	\$ 1,325	\$ -	\$ 1,325	\$	1,325
Production and intermediate-term	10	368	782	1,160	\$	1,160
Total	\$ 10	\$ 1,693	\$ 782	\$ 2,485	\$	2,485

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	\$ -	\$ 1,325	\$ -	\$ 1,325	\$ -	\$ -
Production and intermediate-term	10	368	782	1,160	541	(541)
Total	\$ 10	\$ 1,693	\$ 782	\$ 2,485	\$ 541	\$ (541)

Six months ended June 30, 2011						
Pre-modification Outstanding Recorded Investment						
	Interest Concessions	Principal Concessions	Other Concessions			Total
Troubled debt restructurings:						
Real estate mortgage	\$ -	\$ 3,994	\$ -	\$ 3,994	\$	3,994
Production and intermediate-term	10	1,010	782	1,802	\$	1,802
Total	\$ 10	\$ 5,004	\$ 782	\$ 5,796	\$	5,796

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	\$ -	\$ 3,994	\$ -	\$ 3,994	\$ 728	\$ (728)
Production and intermediate-term	10	1,010	782	1,802	588	(542)
Rural residential real estate	-	-	-	-	(4)	-
Total	\$ 10	\$ 5,004	\$ 782	\$ 5,796	\$ 1,312	\$ (1,270)

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 the three or six month periods ended June 30, 2012. Payment default is defined as a payment that was thirty days or more past due.

TDRs outstanding at period end totaled \$13,109, of which \$10,267 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	\$ 1,351	\$ 1,324
401(k)	188	186
Other postretirement benefits	189	251
Total	\$ 1,728	\$ 1,761

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	\$ -	\$ 2,104	\$ 2,104
Other postretirement benefits	190	177	367
Total	\$ 190	\$ 2,281	\$ 2,471

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

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

NOTE 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 4.02 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 \$22 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's Level 1 assets at June 30, 2012 consist of assets held in trust funds and liabilities related to deferred compensation plans and assets held in mutual funds related to the Association's Corporate Giving Fund. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. 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 and liabilities measured at fair value on a recurring basis.

The carrying value of accrued interest approximates its fair value.

Level 3

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

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

measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

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

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

For other investments, which consist of Tobacco Buyout SIIC, fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.

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

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

Information about Sensitivity to Changes in Significant Unobservable Inputs

For certain recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement are

prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

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

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

	Standby Letters Of Credit
Balance at January 1, 2012	\$ 27
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other Comprehensive income (loss)	-
Purchases	-
Sales	-
Issuances	-
Settlements	(4)
Transfers in and/or out of level 3	-
Balance at June 30, 2012	<u>\$ 23</u>

	Standby Letters Of Credit
Balance at January 1, 2011	\$ 54
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other Comprehensive income (loss)	-
Purchases	-
Sales	-
Issuances	-
Settlements	(3)
Transfers in and/or out of level 3	-
Balance at June 30, 2011	<u>\$ 51</u>

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
Other investments	Discounted cash flow	Probability of default Risk adjusted discount rate
Accrued interest	Carrying value	Coupon interest rates
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment rates
		Probability of default
		Loss severity
		Annualized volatility

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

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

June 30, 2012							
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Comprehensive Income	
Recurring Measurements							
Assets:							
Assets held in Mutual funds	\$ 2,164	\$ 2,164	\$ -	\$ -	\$ 2,164	\$ -	-
Recurring Assets	\$ 2,164	\$ 2,164	\$ -	\$ -	\$ 2,164	\$ -	-
Liabilities:							
Standby letters of credit	\$ 23	\$ -	\$ -	\$ 23	\$ 23	\$ -	-
Recurring Liabilities	\$ 23	\$ -	\$ -	\$ 23	\$ 23	\$ -	-
Nonrecurring Measurements							
Assets:							
Impaired loans	\$ 28,314	\$ -	\$ -	\$ 28,314	\$ 28,314	\$ -	(747)
Other property owned	1,283	-	-	1,355	1,355	-	(49)
Nonrecurring Assets	\$ 29,597	\$ -	\$ -	\$ 29,669	\$ 29,669	\$ -	(796)
Other Financial Instruments							
Assets:							
Cash	\$ 1,061	\$ 1,061	\$ -	\$ -	\$ 1,061		
Loans	877,494	-	-	877,994	877,994		
Other investments	30,327	-	-	31,645	31,645		
Accrued interest receivable	11,150	-	11,150	-	11,150		
Other Assets	\$ 920,032	\$ 1,061	\$ 11,150	\$ 909,639	\$ 921,850		
Liabilities:							
Notes payable to AgFirst Farm Credit Bank	\$ 779,893	\$ -	\$ -	\$ 783,659	\$ 783,659		
Accrued interest payable	1,451	-	1,451	-	1,451		
Other Liabilities	\$ 781,344	\$ -	\$ 1,451	\$ 783,659	\$ 785,110		

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
Assets:				
Assets held in Mutual funds	\$ 3,145	\$ -	\$ -	\$ 3,145
Total Assets	\$ 3,145	\$ -	\$ -	\$ 3,145
Liabilities:				
Standby letters of credit	-	-	27	27
Total Liabilities	\$ -	\$ -	\$ 27	\$ 27

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	\$ -	\$ -	\$ 10,607	\$ 10,607	\$ (6,299)
Other property owned	\$ -	\$ -	\$ 1,810	\$ 1,810	\$ (1,124)

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	\$ 3,191	\$ 3,191
Loans, net of allowance	\$ 846,290	\$ 850,021
Accrued interest receivable	\$ 14,043	\$ 14,043
Other investments	\$ 45,325	\$ 47,114
Assets held in Mutual funds	\$ 3,145	\$ 3,145
Financial liabilities:		
Notes payable and accrued interest to AgFirst Farm Credit Bank	\$ 745,902	\$ 756,493
Deferred Compensation Liability	\$ 2,115	\$ 2,115

NOTE 5 – 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.