2011 Annual Report

Lending support to rural America™

Farm Credit
SOUTHWEST GEORGIA

Southwest Georgia Farm Credit, ACA

2011 Annual Report

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Richard H. Horn .... Chief Lending Officer
Tarrell Bennett .... Chief Relationship Officer
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Robert B. Moss .... Vice Chairman
T.E. Allen, III .... Director
Jeffrey A. Clark .... Director
James H. Dixon, Jr. .... Director
Clifford Dollar, Jr.. .... Director
Robert L. Holden, Sr.. .... Director
B.E. Powell .... Director

President's Message
From Richard S. Monson

Achievement of 2011 Goals Means Greater Promise in the Future

Committed as ever to our core principles of mission and service to agriculture and rural America, Southwest Georgia Farm Credit took the opportunity in 2011 to restructure its operations and solidify the balance sheet. The rationale for this focus was twofold; first to position the company in case of continued economic weakness, and second to better align resources to capitalize on market opportunities should economic expansion resume in earnest. With the confidence that most of the uncertainty in the economy was behind us, the board redirected its focus toward ensuring it could capitalize on the newly fortified balance sheet and emergent demand within the rural marketplace. This concerted approach to increase business development efforts resulted in more than $123 million in loan activity, at a time when the market was in need of a consistent and reliable source of capital.

For our clients the significance of these achievements means two things: the continued desire and ability to serve as the region's leader in financing farms and agri-businesses, and building franchise value through the distributions of earnings to those who own and use the cooperative. More than that, 2011 proved to be a year where we committed ourselves to creating a client-focused environment, one in which we could achieve stability for our customers, and begin to look down the road towards a more prosperous future.

As We Have Grown Stronger We Are Well Positioned for Opportunities

As confidence within the economy continues to grow, the board and management believe the Association is well-positioned for opportunities in the future. We consolidated our operations to better align our core business model within the region we serve. We have put in place a vast array of electronic client touch points that focus on access, availability and security, especially in dealing with personal information. We allocated ample resources to achieve the quickest resolution of nonperforming assets and liquidation of properties to minimize further risk of devaluation. We ensured we appropriately portrayed risk on the balance sheet through establishing an adequate allowance for loan loss. We honed our policies and procedures to even better establish the risk characteristics within which we desired loan and investment assets for our portfolio. And, we worked diligently to maintain and enhance internal controls in order to effectively control and mitigate operational risk. Thus, collectively, we are fulfilling the Board of Directors' mandate to recapitalize and rebuild the Association's balance sheet and re-energize and re-focus our earnings engines.

Despite the difficulties experienced the past several years, we have continued to focus on rebuilding and recommitting towards achieving exceptional franchise value. That means that farmers, ranchers, agricultural cooperatives, farm businesses and rural communities not only will have access to an ample source of competitive financing, but also a dependable source that will not fluctuate with the temperament of a marketplace focused on near term outlook. More importantly, it also means that the profits derived from improving efficiencies and growing earnings assets will in turn be distributed back to the patrons of the Association.

With an even stronger balance sheet and improving revenue generation becoming core aspects of our financial performance, the Association is looking closely at building strategies to strengthen efficiency, improve earnings capacity and position the Association for a future that will continue to evolve. Most assuredly as some agricultural businesses grow ever larger, others will seek niches outside the typical spectrum of agricultural investments, nevertheless the Association is poised to evaluate opportunities that make good business sense in either case.

Proud to Support the Future of Agriculture and Rural America
With a Board of Directors committed to agriculture and rural communities, a commitment to return our profits to our owners, and a desire to help young, beginning, and small farmers survive and thrive, Southwest Georgia Farm Credit works every day to reach out to the constituencies we serve, by supporting organizations such as FFA, 4-H, scholarships, internships and community service projects to ensure we affect the quality of life beyond that which we directly touch in financing rural America. We are dedicated to service, to helping young farmers who dream of a life in agriculture achieve it, and to serve as a neighbor you know and trust.

Thank you for the opportunity to serve southwest Georgia.

Richard S. Monson

Richard S. Monson
Chief Executive Officer

March 13, 2012

Report of Management

The accompanying Consolidated Financial Statements and related financial information appearing throughout this Annual Report have been prepared by management of Southwest Georgia Farm Credit, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts, which must be based on estimates, represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the Consolidated Financial Statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, the financial records are reliable as the basis for the preparation of all financial statements, and the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The Consolidated Financial Statements have been examined by independent certified public accountants, whose report appears elsewhere in this Annual Report. The Association is also subject to examination by the Farm Credit Administration.

The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2011 Annual Report of Southwest Georgia 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.

Bobby J. Brooks
Chairman of the Board

Richard S. Monson
Chief Executive Officer

Ryan G. Burtt
Chief Financial Officer

March 13, 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, to provide 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 and 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 December 31, 2011. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2011, the internal control over financial reporting was effectively 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 December 31, 2011.

Richard S. Monson

Richard S. Monson
Chief Executive Officer

Ryan Burtt
Chief Financial Officer

March 13, 2012

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2011	2010	December 31, 2009	2008	2007
Balance Sheet Data					
Cash	$ 571	$ 910	$ 2,575	$ 2,971	$ 1,310
Investment securities	8,234	8,383	34,992	39,707	35,868
Loans	285,999	294,917	335,972	373,754	394,021
Less: allowance for loan losses	4,322	5,758	4,858	3,359	520
Net loans	281,677	289,159	331,114	370,395	393,501
Investments in other Farm Credit institutions	9,102	11,047	13,730	16,246	21,196
Other property owned	5,963	8,614	1,285	3,725	—
Other assets	53,912	66,138	78,578	89,412	99,788
Total assets	$ 359,459	$ 384,251	$ 462,274	$ 522,456	$ 551,663
Notes payable to AgFirst Farm Credit Bank *	$ 282,203	$ 310,662	$ 388,508	$ 450,740	$ 462,596
Accrued interest payable and other liabilities with maturities of less than one year	10,004	7,778	10,330	8,335	16,120
Total liabilities	292,207	318,440	398,838	459,075	478,716
Protected borrower stock	131	152	255	297	353
Capital stock and participation certificates	971	998	1,245	1,201	1,170
Retained earnings					
Allocated	25,976	25,426	23,894	23,993	27,115
Unallocated	40,174	39,235	38,162	37,890	44,309
Accumulated other comprehensive income (loss)	—	—	(120)	—	—
Total members' equity	67,252	65,811	63,436	63,381	72,947
Total liabilities and members' equity	$ 359,459	$ 384,251	$ 462,274	$ 522,456	$ 551,663
Statement of Operations Data					
Net interest income	$ 8,779	$ 8,584	$ 7,156	$ 9,169	$ 11,807
Provision for (reversal of allowance for) loan losses	817	(586)	4,631	15,558	91
Noninterest income (expense), net	(5,715)	(4,739)	(2,282)	(33)	943
Net income (loss)	$ 2,247	$ 4,431	$ 243	$ (6,422)	$ 12,659
Key Financial Ratios					
Rate of return on average:					
Total assets	0.61%	1.07%	0.05%	(1.16)%	2.13%
Total members' equity	3.35%	6.74%	0.38%	(9.84)%	18.18%
Net interest income as a percentage of average earning assets	2.70%	2.40%	1.66%	1.81%	2.10%
Net (chargeoffs) recoveries to average loans	(0.756)%	0.470%	(0.857)%	(3.079)%	—%
Total members' equity to total assets	18.71%	17.13%	13.72%	12.13%	13.22%
Debt to members' equity (:1)	4.34	4.84	6.29	7.24	6.56
Allowance for loan losses to loans	1.51%	1.95%	1.45%	0.90%	0.13%
Permanent capital ratio	20.64%	18.49%	13.93%	11.97%	12.37%
Total surplus ratio	20.28%	18.13%	13.53%	11.62%	12.08%
Core surplus ratio	17.03%	15.00%	10.74%	9.06%	10.20%
Net Income Distribution					
Estimated patronage refunds:					
Cash	$ 951	$ 1,620	$ —	$ —	$ 3,525
Nonqualified allocated retained earnings	951	1,827	—	—	2,350

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2012.*

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Southwest Georgia Farm Credit, ACA, (Association) for the year ended December 31, 2011 with comparisons to the years ended December 31, 2010 and December 31, 2009. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Southwest Georgia. Refer to Note 1, "Organization and Operations," of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.swgafarmcredit.com***, or by calling 1-866-304-3276, extension 1150, or writing Belinda Robertson, Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly Report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to the USDA information in this section refer to the entire U.S. agricultural market and are not limited to the Association.

The February 2012 USDA forecast estimates 2011 farmers' net cash income, which is a measure of the cash income after payment of business expenses, increased to $108.7 billion, up

$16.4 billion from 2010 and up $28.4 billion from its 10-year average of $80.3 billion. The improvement in 2011 farmers' net cash income was due primarily to increases in crop receipts of $24.0 billion and livestock receipts of $24.6 billion, partially offset by a $34.7 billion increase in cash expenses.

The February 2012 USDA forecast for the farm economy, as a whole, projects 2012 farmers' net cash income to decrease to $96.3 billion, a $12.4 billion decrease from 2011, but $16.0 billion above the 10-year average. The forecasted decrease in farmers' net cash income for 2012 is primarily due to an expected increase in cash expenses of $11.3 billion, while crop and livestock receipts remain near the 2011 levels.

For 2012, the USDA expects crop receipts to increase slightly, as increases in corn and most other feed grains offset declines in wheat, hay, vegetables/melons, and fruits/tree nuts. The drought in parts of the U.S. in 2011 is expected to depress sales of many crops through its negative impact on production. Livestock receipts are expected to decline marginally in 2012. While receipts for cattle are anticipated to increase as demand for beef in the Asian markets remains strong, dairy receipts are expected to decrease as milk prices are forecast to be lower.

The following table sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2008 to December 31, 2011:

Commodity	12/31/11	12/31/10	12/31/09	12/31/08
Corn	$5.86	$4.82	$3.60	$4.11
Soybeans	$11.50	$11.60	$9.80	$9.24
Wheat	$7.19	$6.45	$4.87	$5.95
Beef Cattle	$120.00	$98.10	$78.50	$79.70

The USDA's income outlook varies depending on farm size, geographic location, and commodity specialties. The USDA classifies all farms into three primary categories: commercial farms, intermediate farms and rural residential farms. Commercial farms, large scale farms with gross sales greater than $250 thousand, represent about 12 percent of U.S. farms by number but represent over 80 percent of total U.S. farm production. Commercial farms are expected to have a 17 percent increase in average net cash income in 2011. Intermediate farms, defined as ones in which the primary occupation is farming and gross sales are between $10 thousand and $250 thousand, represent 28 percent of U.S. farms by number and account for 18 percent of total production. Intermediate farms are expected to have a14 percent increase in average net cash income in 2011. The remaining 60 percent of U.S. farms are classified as rural residential farms where the primary occupation is not farming and the farms produce less than $10 thousand in sales. Rural residential farms only account for 2 percent of total production.

In addition to farmers' net cash income, off-farm income is an important source of funds for the repayment of farm debt obligations and is less subject to cycles in agriculture. However, off-farm income can be directly affected by conditions in the general economy. The USDA measures farm household income, which is defined as earnings from farming activities plus off-farm income. Nearly 100 percent of farm household income for operators of rural residential farms and approximately 90 percent of farm household income for intermediate farms is generated from off-farm sources. Further, USDA data suggests that approximately 24 percent of farm household income for commercial farms is generated from off-farm income.

According to the USDA's February 2012 forecast, farm sector asset values and farm debt are forecasted to rise modestly in 2012. Farm sector asset values are expected to rise 5.6 percent from $2.34 trillion for 2011 to $2.47 trillion in 2012 primarily due to an increase in the value of farm real estate. The values of machinery/equipment, purchased inputs and financial assets are expected to rise modestly in 2012, while the value of livestock and poultry inventories is expected to decline slightly. The main factors driving higher farmland values are the continued strength of commodity prices, low interest rates, expectations of continued favorable net returns and growth in agricultural exports. Farmer's equity (farm business assets minus debt) is expected to rise 5.7 percent from $2.10 trillion in 2011 to $2.22 trillion in 2012.

One measure of the financial health of the agricultural sector used by the USDA is the assessment of farmers' utilization of their capacity to repay debt (actual debt as a percentage of maximum debt that can be supported by farmers' current income). Higher capacity utilization rates indicate tighter cash flow positions and, consequently, higher exposure to financial risk. Lower rates indicate healthier cash flow and financial positions. These estimates do not take into account, however, off-farm income sources. Since 1970, debt repayment capacity utilization has ranged from a low of 37 percent in 1973 to a high of 110 percent in 1981, and has remained relatively stable since 1987, averaging about 50 percent. The forecast for 2012 predicts farmers' utilization to increase from 40 percent in 2011 to approximately 47 percent for 2012.

As estimated by the USDA in February 2012, the Farm Credit System's market share of farm business debt, defined as debt incurred by those involved in on-farm agricultural production, grew to 41.4 percent at December 31, 2010 (latest available data), as compared with 40.1 percent at December 31, 2009. Overall, farm business debt is forecasted to increase in 2012 to $254.1 billion from $244.8 billion in 2011.

In general, agriculture has experienced a sustained period of favorable economic conditions due to stronger commodity prices, higher farm land values, and, to a lesser extent, government support programs. To date, the Association's financial results have remained favorable as a result of the favorable agricultural economic conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, the Association's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general and agricultural economies remain volatile given the state of the global economy. Certain agriculture sectors, as described more fully in this *Management Discussion and Analysis*, experienced significant financial stress during 2011 and could continue to experience financial stress in 2012. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, "Summary of Significant Accounting Policies," of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

  Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate for 2011 was selected by reference to analysis and yield curves of the plans' actuary and industry norm.

ECONOMIC CONDITIONS

The economy in Southwest Georgia is made up of a multitude of varying industries – ranging from large industrial companies to farms and farm businesses, to small, family owned operations. The Association's portfolio is impacted by two key economic factors: the local unemployment rate and the strength of the agricultural industry.

Unemployment rates have the greatest impact on the small and part-time farming sectors of the Association's portfolio. Essentially, these sectors of the portfolio have a larger dependence on non-farm income and are influenced to a greater extent by the general economy. Unfortunately, Georgia's economic recovery continues to lag the overall national recovery. In 2011, the job creation in Georgia was slightly negative while the national economy had positive job creation. Some Georgia economist believe 2012 will mark the bottom and turning point for the state, however estimates show that Georgia will not recover to prerecession levels until 2020.

Agriculture/Agribusiness has been a strong positive economic driver throughout the recession. With strong demand and relatively high prices in some of Georgia's largest commodities (peanuts, cotton, pecans, corn, i.e.) agriculture has been able to flourish through the recession. Accordingly, in 2011 the Association had the largest amount of loan growth from the purchase of additional farm real estate and additional capital expansions in agribusinesses.

Forecast for the 2012 Agricultural industry is expected to remain constant with 2011 for most commodities with some having additional improvements in market fundamentals. Additional estimates for some of the major commodities produced in southwest Georgia are provided below.

Land Values

Properties with minimal cash flow potential have had the greatest amount of reduction in value over the last several years. Data collected by the Association through the Crumpton Report, is showing stabilization in the value of these properties, however it is unlikely the values will see any large appreciation for several years. Agricultural real estate continues to have strong valuations. Values for these properties are greatly impacted by the commodity price of the product produced on the property and the properties access to water/irrigation. Values for agricultural real estate will continue to be strong unless the agricultural economy begins to show signs of weakening.

Peanuts

In 2011, Georgia, the leading state for peanut production in the United States, planted the fewest acres of peanut in approximately three decades. The low level of planted acreage accompanied by a dry growing season led to prices at the end of harvest reaching $1,000 per ton. Unfortunately, many producers were not able to take advantage of the higher prices at harvest due to contracting the crop at the beginning of the growing season. Price estimates for the 2012 peanut crop are between $650 and $750 per ton, which is slightly higher than the 2011 average. Planted acreage for peanuts is expected to increase by more than 20% in the state of Georgia, which could put some downward pressure on price.

Timber

The Southern United States continues to be a world leader in timber products due to a favorable exchange rate and a strong infrastructure of mills, productive forestland, and updated market strategies. The economic health of the timberland, timber and forest product industries, are directly tied to the economy and, in particular, the housing markets and, at least in the past, mortgage rates.

While mortgage rates have fluctuated over the past several years, they have hit historic lows as of October 2011. Drastically reduced housing starts tend to influence southern pine lumber production; this was not the case in 2011 as shipments increased slightly over the past 12 months. These numbers; however, are still significantly lower than the highs of 2006. Once the housing recovery begins, the demand on sawlogs on the stump will be noticed almost immediately due to the loss of logging capacity in many regions in the South. Timber markets will continue to fluctuate, although not as wildly as in previous years.

Poultry

The outlook for broiler meat production in 2012 has changed over the last several months, due to sharp changes in the number of chicks being placed for growout and average broiler weights at slaughter. Chicks being placed for growout are averaging 3.6 percent lower than the previous year. The decrease in the number of chicks being placed for growout from the same period a year earlier is now about half what it was in mid-November. Falling broiler meat production, decreases in the stock levels for most broiler parts, and strong prices for many beef and pork products have combined to gradually push wholesale prices for broiler products higher.

Cotton

The 2012 planted acres are expected to be at or near the 2011 level despite the anticipated decline in overall global demand due to lower consumption. While the 2011 acreage planted in the US totaled 14.72 million acres, which was near the 2006 high of 15.27 million and well above the 2010 level of 10.97 million, acreage abandonment is thought to be approximately 30%. 2012 cotton prices are expected to be considerably less than the $1.40 - $2.00 range, most likely in the $0.80 to $0.90 range, due to an overall good production year worldwide, lower demand, and anticipated high peanut prices which would cause competition for other crops acreage in some areas.

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 through numerous product types.

The diversification of the Association loan volume by type for each of the past three years is shown below.

	December 31,					
Loan Type	**2011**		**2010**		**2009**	
	(dollars in thousands)					
Real estate mortgage	$ 180,765	63.20 %	$ 180,051	61.05 %	$ 187,015	55.66 %
Production and intermediate-term	68,299	23.88	68,562	23.25	90,137	26.83
Processing and marketing	18,444	6.45	33,650	11.41	35,797	10.65
Farm-related business	14,798	5.17	8,551	2.90	18,238	5.43
Rural residential real estate	3,693	1.30	4,103	1.39	4,785	1.43
Total	$ 285,999	100.00 %	$ 294,917	100.00 %	$ 335,972	100.00 %

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. The geographic distribution of the loan volume by county/branch for the past three years is as follows:

	December 31,		
County/Branch	**2011**	**2010**	**2009**
Baker	2.95%	2.64%	2.18%
Calhoun	.60	.84	1.67
Chattahoochee	.29	1.02	1.20
Clay	.63	.72	.55
Decatur*	15.41	13.21	14.52
Doughtery	5.26	3.97	4.38
Early	1.69	3.28	2.56
Grady	3.52	3.22	3.02
Lee	2.41	1.96	1.77
Marion	3.61	3.43	3.29
Miller	2.31	2.72	2.26
Mitchell*	10.61	9.92	10.34
Randolph	1.57	1.28	1.00
Schley	.38	.40	.58
Seminole	5.07	4.14	2.95
Stewart	1.64	1.47	1.39
Sumter*	5.05	4.81	3.79
Terrell*	2.69	2.19	1.62
Thomas	1.16	1.52	1.18
Webster	1.51	1.13	.92
Other**	31.64	36.13	38.83
	100.00%	100.00%	100.00%

**Branch Locations*
*** The Other category above consists of loans originated and participated outside our territory.*

The Association's efforts to strengthen its capital position over the last couple of years caused a shift of the geographic composition within the portfolio.

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer. The major commodities in the Association's loan portfolio are shown below. The predominant commodities are timber, poultry, landlords, cotton, peanuts, livestock, and, fruit and nuts, which constitute over 66 percent of the entire portfolio.

	December 31,					
Commodity Group	**2011**		**2010**		**2009**	
	(dollars in thousands)					
Timber	$ 62,753	22%	$ 69,161	23%	$ 83,960	25%
Poultry	36,724	13	40,662	14	42,164	13
Landlords	34,941	12	33,636	11	38,469	11
Cotton	32,740	11	27,670	9	23,316	7
Peanuts	19,411	7	18,338	6	14,447	4
Livestock	14,656	5	15,572	5	24,358	7
Fruit & Nut	11,740	4	12,456	4	14,884	4
Vegetables	7,863	3	4,920	2	8,231	2
Row Crops	7,219	3	7,816	3	11,154	3
Dairy	5,581	2	5,635	2	8,668	3
Rural Home	3,121	1	3,552	1	4,401	1
Horticulture	347	–	929	1	1,781	1
Other	48,903	17	54,570	19	60,139	18
Total	$ 285,999	100%	$ 294,917	100%	$ 335,972	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of timber, landlords, poultry, cotton, livestock and peanut producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Within the timber commodity group there are significant numbers of less than full time timber producers. As such, the risk in this group is more diversified than appears from the nominal percentage. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The decrease in gross loan volume for the twelve months ended December 31, 2011, is primarily attributed to the reduction in demand for credit in our chartered territory. The deleveraging of the balance sheet has allowed the Association to strengthen both capital and liquidity positions during tough economic times.

For the past few years, the Association has experienced a shift in loan assets. The long-term volume trend has been downward while the short and intermediate-term loan volume trend is upward. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance in August and rapidly declines in the fall months as our primary agriculture commodities are converted to cash which is used to repay the debt.

During 2011, the Association reduced activity in the buying and selling of loan participations within and outside of the System to manage growth which strengthened the Association's capital position.

Loan Participations:	2011	December 31, 2010	2009
		(dollars in thousands)	
Participations Purchased – FCS Institutions	$ 44,154	$ 72,468	$ 64,113
Participations Purchased – Non-FCS Institutions	1,064	7,308	13,160
Participations Sold	(106,338)	(100,287)	(117,872)
Total	$ (61,120)	$ (20,511)	$ (40,599)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2011.

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2011, the Association originated loans for resale totaling $5,750, which were subsequently sold into the secondary market. The Association also utilizes the Farmer Mac Long Term Stand-By repurchase agreements. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2011, the Association had loans amounting to $14,087 which were 100 percent guaranteed by Farmer Mac. The Association additionally has purchased portions of loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. At December 31, 2011, the balance of these loans, including the unamortized premium, was $921, compared to $951 at December 31, 2010 and $1,744 at December 31, 2009.

MISSION-RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot program and the Tobacco Buyout Program under the mission-related investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Association to make investments in Rural America Bonds. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2011, December 31, 2010, and December 31, 2009, the Association had $17,860, $18,078, and $18,761, respectively, in Rural America Bonds.

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota and included an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments (Successor-in-Interest Contracts (SIIC)) so that they may obtain a lump sum or other payment. On April 4, 2005, the United States Department of Agriculture (USDA) issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout). At December 31, 2011, December 31, 2010, and December 31, 2009, the Association had $37,426, $48,671, and $59,302, respectively, in SIIC outstanding and these are classified as Other Investments on the Consolidated Balance Sheets.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association's investments consist primarily of asset-backed securities (ABS). The ABSs amounted to $0 at December 31, 2011, $0, at December 31, 2010 and $27,142 at December 31, 2009. These ABSs are rated AAA, as they are guaranteed by the full faith and credit of the United States government.

In view of the recent economic conditions and volatility related to these types of securities, the Association changed the classification of these securities in 2009 from "held to maturity" to "available for sale" and recognized the net gain or loss as other comprehensive income or loss on the balance sheet. The Association sold these securities in June of 2010.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history

- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be advanced in amounts up to 85 percent of the appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loan originations of more than $250 thousand. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and overall risk level in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2011	2010	2009
Acceptable & OAEM	93.45%	92.37%	84.94%
Substandard	6.55%	7.63%	15.06%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

High-risk Assets	2011	December 31, 2010	2009
		(dollars in thousands)	
Nonaccrual loans	$ 12,353	$ 19,192	$ 34,541
Restructured loans	2,992	1,155	185
Accruing loans 90 days past due	–	–	–
Total Non-Performing Loans	15,345	20,347	34,726
Total high-risk loans	15,345	20,347	34,726
Other property owned	5,963	8,614	1,285
Total high-risk assets	$ 21,308	$ 28,961	$ 36,011
Ratios			
Nonaccrual loans to total loans	4.32%	6.51%	10.28%
High-risk assets to total assets	5.93%	7.54%	7.79%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. During 2011 the Association made concentrated efforts to reduce the high risk assets by setting attainable goals and timelines. Nonaccrual loans decreased $6,839 or 35.63 percent in 2011. Of the $12,353 in nonaccrual volume at December 31, 2011, $1,961 or 15.87 percent, compared to 33.95 percent and 43.91 percent at December 31, 2010 and 2009, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and its stockholders.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb expected losses inherent to its loan portfolio for the next twelve month period.

The following table presents the activity in the allowance for loan losses for the most recent three years:

Allowance for Loan Losses Activity:	2011	2010	2009
	Year Ended December 31, (dollars in thousands)		
Balance at beginning of year	$ 5,758	$ 4,858	$ 3,359
Charge-offs:			
Agribusiness	(2,999)	(1)	(99)
Production and intermediate term	(2,924)	(3,199)	(3,696)
Real estate mortgage	(553)	(3,765)	(1,899)
Total charge-offs	(6,476)	(6,965)	(5,694)
Recoveries:			
Agribusiness		13	
Real estate mortgage	2,180	248	16
Production and intermediate term	2,043	8,190	2,546
Total recoveries	4,223	8,451	2,562
Net (charge-offs) recoveries	(2,253)	1,486	(3,132)
Provision for (reversal of allowance for) loan losses	817	(586)	4,631
Balance at end of year	$ 4,322	$ 5,758	$ 4,858
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.76)%	0.47%	(0.86)%

The net loan charge-offs were primarily associated with several large relationships that were placed into non-accrual during the year. Provisions to the allowance for loan loss were made when necessary. Once these loans were determined to be under collateralized and uncollectible the Association processed the charge-offs.

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	2011	2010	2009
	December 31, (dollars in thousands)		
Real estate mortgage	$ 1,819	$ 2,856	$ 1,738
Production and intermediate-term	2,195	1,348	1,113
Agribusiness	278	1,472	1,962
Energy	–	–	–
Rural residential real estate	30	82	45
Total allowance	$ 4,322	$ 5,758	$ 4,858

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	2011	2010	2009
	December 31,		
Total loans	1.51%	1.95%	1.45%
Nonperforming loans	28.51%	28.30%	13.99%
Nonaccrual loans	34.99%	30.00%	14.06%

Please refer to Note 4, "Loans and Allowance for Loan Losses," of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $8.8 million, $8.6 million and $7.2 million in 2011, 2010 and 2009, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
12/31/11 - 12/31/10				
Interest income	$ (1,673)	$ 303	$ (682)	$ (2,052)
Interest expense	(1,413)	(834)	–	(2,247)
Change in net interest income	$ (260)	$ 1,137	$ (682)	$ 195
12/31/10 - 12/31/09				
Interest income	$ (3,784)	$ 361	$ 728	$ (2,694)
Interest expense	(2,856)	(1,267)	–	(4,122)
Change in net interest income	$ (928)	$ 1628	$ 728	$ 1,428

- *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended December 31, 2011	2010	2009	Percentage Increase/(Decrease) 2011/2010	2010/2009
	(dollars in thousands)				
Loan fees	$ 715	$ 966	$ 870	(25.98) %	11.03 %
Fees for financially related services	5	4	5	25.00	(20.00)
Patronage refund from other Farm Credit Institutions	4,795	5,453	6,078	(12.07)	(10.28)
Gains (losses) on other property owned, net	(2,380)	(3,428)	(921)	30.57	(272.00)
Gains (losses) on sales of rural home loans, net	–	–	–	–	–
Gains (losses) on sales of premises and equipment, net	69	5	189	1280.00	(97.35)
Gains (losses) on sales of investment securities	–	(76)	–	–	–
Insurance Fund refund	–	381	–	–	–
Other noninterest income	49	42	46	16.67	(8.70)
Total noninterest income	$ 3,253	$ 3,347	$ 6,267	(2.81) %	(46.59) %

The decreasing trend over the past three years in noninterest income is primarily related to two setbacks:

1. The decrease in average loan volume has caused a correlated decrease in patronage income from AgFirst Farm Credit Bank
2. The losses recognized on other property owned as nonaccrual loans are foreclosed and the collateral is liquidated

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended December 31, 2011	2010	2009	Percentage Increase/(Decrease) 2011/2010	2010/2009
	(dollars in thousands)				
Salaries and employee benefits	$ 5,768	$ 5,237	$ 5,136	10.14%	1.97%
Occupancy and equipment	675	640	632	5.47	1.27
Insurance Fund premiums	147	144	587	2.08	(75.47)
Other operating expenses	2,378	2,065	2,192	15.16	(5.79)
Total noninterest expense	$ 8,968	$ 8,086	$ 8,547	10.91%	(5.39)%

Salaries and employee benefits increased in 2011, as compared with 2010. This increase is the result of merit salary increases, bonus and incentives as well as increases in health insurance costs. Also, additional pension funding was required as a result of the current economic downturn.

Insurance Fund premiums continued at a reduced rate for the twelve months ended December 31, 2011. During 2010 the Farm Credit System Insurance Corporation (FCSIC) reduced the insurance premiums as a result of the economic downturn and the expected decrease in Systemwide insured obligations. The FCSIC set premiums to 6 basis points on adjusted insured debt outstanding for 2011. In addition there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments.

Salaries and employee benefits increased in 2010, as compared with 2009, primarily due to additional pension funding required as a result of the current economic downturn.

Insurance Fund premiums decreased 75 percent for the twelve months ended December 31, 2010 compared to the same period of 2009. The Farm Credit System Insurance Corporation (FCSIC) reduced the insurance premium as a result of the economic downturn and the expected decrease I Systemwide insured obligations. The FSCIC set premiums at 5 basis points on adjusted insured debrt outstanding for 2010. In addition there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. Previously, premiums of up to 15 basis points could be charged on accruing loans and up to 25 basis points for nonaccrual loans.

Income Taxes

The Association recorded a provision for income taxes of $0 for the year ended December 31, 2011, as compared to a provision of $0 for 2010 and $2 for 2009. Refer to Note 2, "Summary of Significant Accounting Policies, Income Taxes," of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/11	12/31/10	12/31/09
Return on average assets	.61%	1.07%	.05%
Return on average members' equity	3.35%	6.74%	.38%
Net interest income as a percentage of average earning assets	2.70%	2.40%	1.66%
Net (charge-offs) recoveries to average loans	(0.76)%	0.47%	(.86)%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue the improvement shown in recent years and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA 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 the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. 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. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2011, was $282,203 as compared to $310,662 at December 31, 2010 and $388,508 at December 31, 2009. The decrease of 9.16 percent compared to December 31, 2010 and the decrease of 20 percent compared to December 31, 2009, was attributable to the reduction in total assets funded in 2010 and 2011. The average volume of outstanding notes payable to the Bank was $299,839, $342,937, and $421.299 for the years ended December 31, 2011, 2010, and 2009 respectively. Refer to Note 9, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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 the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in the Farmer Mac, stand by purchase program, investments, and other secondary market programs provides additional liquidity.

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings, and capital covenants. The Association failed to meet its earnings covenant under the GFA at December 31, 2011. The default allows the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank has approved a waiver of the default and has allowed the Association to operate under a special credit arrangement pursuant to its GFA. The special credit arrangement will expire on July 31, 2012.

The Association had no lines available under lines of credit from third party financial institutions as of December 31, 2011.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 30-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 9, "Notes Payable to AgFirst Farm Credit Bank" of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's ability to access capital of the Association is discussed in Note 6 "Investment in Other Farm Credit Institutions" of the Notes to the Consolidated Financial Statements.
The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding Sources" section of this Management's Discussion and Analysis and in Note 9, "Notes Payable to AgFirst Farm Credit Bank" included in this Annual Report.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably.

Total members' equity at December 31, 2011, increased 2.19 percent to $67,252 from the December 31, 2010, total of $65,811. At December 31, 2010, total members' equity increased 3.74 percent from the December 31, 2009 total of $63,436. During 2011 the Association continued to recover from the economic turmoil experienced in the last two years.

Total capital stock and participation certificates were $1,102 on December 31, 2011, compared to $1,150 on December 31, 2010 and $1,500 on December 31, 2009. The decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standard for all the ratios.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2011	2010	2009	Regulatory Minimum
Permanent capital ratio	20.64%	18.49%	13.93%	7.00%
Total surplus ratio	20.28%	18.13%	13.53%	7.00%
Core surplus ratio	17.03%	15.00%	10.74%	3.50%

The increase in the Association's permanent capital, total surplus, and core surplus for December 31, 2011 was primarily attributed to the reduction in loan volume and risk adjusted asset base. The Association's analysis and business plan forecast does not indicate any trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 10, "Members' Equity," of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 10, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The ACA did not declare patronage distributions for 2009. The Association distributed $2,846 of patronage in 2011 based on 2010 earnings and an estimated $1,902 of patronage based on 2011 earnings is expected to be distributed in 2012.

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The future of the agricultural industry relies on the success of our Young*, Beginning**, and Small*** farmers. As part of our mission, we provide financial services to agriculture and rural communities, which includes providing credit to these farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, Southwest Georgia Farm Credit has established annual marketing goals to help meet the needs of YBS farmers in our market. Communication strategies and educational opportunities are in place to provide outreach to this market segment, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit.

The following table outlines the Association's 2011 goals, loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2011*			
	Number of Loans		$ Amount of Loans	
	2011 Goal	2011 Actual	2011 Goal	2011 Actual
Young	174	181	29,815	37,153
Beginning	437	429	78,077	73,235
Small	777	716	90,573	333,288

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

Each year, the Association establishes goals for the portfolio and for new loans to YBS borrowers. 2011 goals and accomplishments follow:

	As of December 31, 2011*			
	Number of New Loans		$ Amount of New Loans	
	2011 Goal	2011 Actual	2011 Goal	2011 Actual
Young	80	67	9,961	21,410
Beginning	80	93	19,828	28,442
Small	320	144	16,600	22,684

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2007 USDA Ag Census data (2007 is the latest USDA Ag Census data available; next census will be available in February, 2012) has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties), there were 4,691 reported number of farms, of which by definition 255 operators or 5.43 percent were Young; 1,372 or 29.24 percent were Beginning; 4,066 or 86.67 percent were Small. Comparatively, as of December 31, 2011, the demographics of the Association's agricultural portfolio contained 1,472 YBS notes, of which by definition 194 or 13.18 percent were Young; 474 or 32.20 percent were Beginning; 804 or 54.62 percent were Small.

In 2011, the Association executed the following tactics in order to accomplish YBS goals.

- Utilize advertising and Association publications to further the awareness and understanding of YBS goals and accomplishments.
- Establish a YBS Conference for customers and non-customers, to serve as a forum for learning. The program focused on financial performance, income statements and balance sheets. Attendees were offered the opportunity to return at year-end to meet with a credit analyst to review their financial performance for the year.
- Effectively coordinate with the USDA Farm Service Agency to fully utilize the loan guarantee program to ensure safe and sound practices.
- Work closely with our associations within the state of Georgia to promote YBS activities. At the Sunbelt Ag Expo, Southwest Georgia Farm Credit, along with two other Georgia associations, coordinates an annual dinner for young farmers.
- Effectively utilize focused sales management techniques and incentive compensation to expand competitive presence with the YBS farmer mission segment.

2011 Activities

- TEPAP – The Executive Program for Agricultural Producers – Opportunity for YBS (meeting any of these definitions) farmers to participate in a two-year course taught at Texas A & M, with a focus on managing personnel, evaluating new market opportunities, negotiating mergers and acquisitions and adapting to regulatory and technology changes. Two members will attend the program in January, 2011.

- FFA – The Association supports this organization through active participation and sponsorships, in an effort to promote leadership among middle school and high school students who express an interest in an ag-related career. More specifically, we have sponsored the t-shirts for the middle school FFA program in one of our counties for the past three years, as well as providing sponsorship money and volunteers to work, when needed, for local livestock shows, Career Development Events (CDEs), conferences, and banquets.

- 4-H – The Association supports events and sponsors activities, in an effort to promote farming skills and leadership beginning at an early age. We assist our county extension offices with 4-H programs through sponsorship of events, attendees to conferences, and banquets. This also includes volunteers to assist when needed.

- Young Farmers Association Chapters – On a local and statewide level, the Association supports young farmer education, management contests, and the annual statewide convention. We have several employees who are members of local chapters and who take an active role in supporting chapter activities. This is an opportunity to interact with borrowers and potential borrowers as well as to educate them about Farm Credit.

- Sunbelt Ag Expo – As a major sponsor with the two additional Farm Credit associations in the state, the Sunbelt Ag Expo serves as an opportunity to promote Farm Credit within this market segment, and offer one-on-one information about the services offered by the association. Employees volunteered to staff the Farm Credit exhibit and interacted with the hundreds of visitors who stopped by.

- Young Couples Cooperative Conference – As a member of the Georgia Cooperatives Association, this Association offers the opportunity for a YBS couple to participate in the annual, statewide conference. This conference provides YBS farmers with an opportunity to network, participate and learn about cooperative principles.

- Youth leadership conference offered by GA Cooperative Council (As a member of the Georgia Cooperative Council, the Association sponsors the annual Youth Leadership Conference, offers a guest speaker, if not from our Association then from another Farm Credit Association) at the event, and promotes Farm Credit. The Association offers scholarships to students who want to attend the event, in an effort to help defray costs.

- Scholarship at Fort Valley and at UGA – Along with the two other Farm Credit associations in the state, this Association sponsors scholarships at Fort Valley and at UGA, to deserving students pursuing a career in an ag-related field.

- Industry Trade Shows – The Associations sponsors, and participates in, a variety of ag-related trade shows and conferences throughout the state of Georgia. These venues provide a wonderful opportunity to educate and promote Farm Credit services to a variety of potential borrowers, including those in the YBS segment. In 2011, this has included:

    - Georgia Peanut Farm Show
    - Georgia Young Farmers Association Convention
    - National Peanut Buying Points Conference
    - SE Pecan Growers Association Meeting
    - American Peanut Shellers Meeting
    - Ochlocknee Field Day
    - SE Pecan Growers Assn Trade Show & Annual Meeting
    - USA Peanut Congress
    - Southern Peanut Growers Conference
    - American Peanut Shellers & National Peanut Buying Points Assn Meeting
    - Georgia Peanut Farm Tour

The Association's Sales Incentive Program helps to ensure the extension of credit to YBS farmers. This program specifically allocated incentive compensation for new loans identified and originated as YBS. In addition, the Association continued to work closely with the Farm Service Agency to utilize the loan guarantee program as an approved Farm Service Agency Preferred Lender. Utilization of loan guarantee programs with qualifying YBS borrowers, assisted in the accomplishment of the Association's mission.

In fulfilling the Corporate Mission as well as the Public Mission and Obligation Statement, the Association ensured that credit and services were offered to all eligible borrowers, including YBS farmers and ranchers, in a safe and sound manner and within the Association's risk-bearing capacity. The Association is committed to the future success of young, beginning and small farmers.

- *Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

- ** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

- ***Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

During the first quarter of 2010, the FCA entered into a written supervisory agreement with the Association. The written supervisory agreement required the Association to take corrective actions with respect to certain areas of its operations, including capital, portfolio management, and asset quality. The Association remains under written supervisory agreement as of the date of this report.

On August 18, 2011, the FCA published for comment an amendment to the regulations governing investments held by institutions of the System. Comments were due November 16, 2011. The stated objectives of the proposed rule are to:

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

On August 26, 2011, the FCA published for comment an advance notice of proposed rulemaking regarding various references to and requirements of reliance on crediting ratings issued by NRSROs of a security or money-market instrument. Section 939A of the Dodd-Frank Act requires Federal agencies to remove any reference to or requirement of reliance upon credit ratings, and substitute in their place standards of creditworthiness that they deem appropriate for the regulations. The FCA seeks public comment on alternatives to the use of credit ratings in the regulations. Comments were due November 25, 2011.

On November 1, 2011, the FCA published for comment the draft Second Amended and Restated Market Access Agreement (MAA), which is an Agreement between the Banks and the Funding Corporation. Comments were due December 1, 2011. No comments were received by the FCA with respect to the draft MAA. The MAA was executed by the Banks and the Funding Corporation with an effective date of January 1, 2012.

On December 27, 2011, the FCA published for comment a proposed rule to amend the liquidity regulation. The purpose of the proposed rule is to strengthen liquidity risk management at System Banks, improve the quality of assets in the liquidity reserve, and bolster the ability of System Banks to fund their obligations and continue their operations during times of economic, financial, or market adversity. Comments were due by February 27, 2012. The stated objectives of the rule are to:

- improve the capacity of Banks to pay their obligations and fund their operations by maintaining adequate liquidity to withstand various market disruptions and adverse financial or economic conditions;
- strengthen liquidity management at all Banks;
- enhance the marketability of assets that Banks hold in their liquidity reserve;
- establish a supplemental liquidity buffer that Banks can draw upon during an emergency and that is sufficient to cover the Bank's liquidity needs beyond the 90-day liquidity reserve; and
- strengthen each Bank's contingency funding plan.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 of the Consolidated Financial Statements, "Organization and Operations," included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Georgia:

Location	Description	Form of Ownership
305 Colquitt Highway Bainbridge	Administrative Annex, Branch	Owned
117 S. Donalson Street Bainbridge	Administrative	Owned*
411 W. Broughton Street Bainbridge	Annex	Owned**
33 Liberty Street Blakely	Branch	Owned**
40 E. Broad Street Camilla	Branch	Owned
1230 38th Blvd., NW Cairo	Branch	Owned
408 W. 3rd Street Donalsonville	Branch	Owned**
1037 E. Forsyth Street Americus	Branch	Owned
937 Forrester Drive, S.E. Dawson	Branch	Owned
111 6th Avenue Buena Vista	Outpost	Leased***
401 E. Jackson Street Thomasville	Outpost	Leased****

* *The original Administrative building is presently for sale. However, beginning October 1, 2010 the association signed an 18 month lease agreement on the building. Lease payments are $2,350.00 per month Lease will end on 03/31/12.*

** *The Annex and Blakely buildings were sold in June 2011. The Donalsonville building was sold in August 2011.*

*** *The Buena Vista outpost is leased by the Association on a year-by-year basis. Lease payments are $150 per month. Lease ended on 12/31/11.*

**** *The Thomasville outpost is leased by the Association on a year-by-year lease basis. Lease payments are $600 per month.*

NOTE *The Thomasville outpost office is primarily used for the Association's Secondary Mortgage Market Unit.*

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 14 of the Consolidated Financial Statements, "Commitments and Contingencies," included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 10 of the Consolidated Financial Statements, "Members' Equity," included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 9 and 14 of the Consolidated Financial Statements included in this Annual Report.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association:

Senior Officer	Position
Richard S. Monson	President/Chief Executive Officer
Richard H. Horn	Chief Lending Officer
Ryan G. Burtt	Chief Financial Officer
Tarrell Bennett	Chief Relationship Officer

Richard S. Monson, President/Chief Executive Officer:
Mr. Monson began his career in the Farm Credit System in 1986, serving as the Chief Lending Officer at Farm Credit of Southwest Florida. For the past 12 years, Mr. Monson has served Southwest Georgia Farm Credit as its President/Chief Executive Officer.

Richard H. Horn, Chief Lending Officer:
Mr. Horn joined the Farm Credit System in 1981, most recently serving Southwest Georgia Farm Credit as its Chief Lending Officer. He joined the association in 2008. Prior to that, Mr. Horn was employed as the Chief Lending Officer at ArborOne.

Ryan G. Burtt, Chief Financial Officer:
Mr. Burtt joined the Association in 2004, and has served as both the Director of Credit Administration and Director of Risk Management. Mr. Burtt became Chief Financial Officer in January, 2010.

***Tarrell Bennett, Chief Relationship Manager*:**
Mr. Bennett has served the Association as Chief Relationship Manager for the past 12 years, having been a loan officer for the 10 years prior to that. Mr. Bennett has served in a variety of roles since joining the Association more than 39 years ago. He has served as the association's Credit Manager and worked in the Special Assets Management Department.

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2011, 2010 and 2009, is as follows:

Name of Individual or Number in Group	Year	Annual Salary	Bonus	*Deferred-Comp.	**Perq./Other	Total
Richard S. Monson	2011	$ 255,303	$ –	$ –	$ 6,201	$ 261,504
Richard S. Monson	2010	$ 251,118	$ –	$ –	$ 7,063	$ 258,181
Richard S. Monson	2009	$ 251,118	$ –	$ –	$ 5,017	$ 256,135
5	2011	$ 707,278	$ 179,293	$ –	$ 13,018	$ 899,589
7	2010	$ 676,293	$ 68,495	$ –	$ 6,335	$ 751,123
6	2009	$ 760,630	$ 36,052	$ –	$ 15,032	$ 811,714

**Amounts in the above table classified as Deferred Comp. include amounts contributed by the Association on behalf of the senior officer to a defined contribution plan unless the plan is made available to all employees on the same basis.*

***Amounts in the above table classified as Perquisites/Other include items, i.e., travel incentives, group life insurance, automobile compensation, purchased automobile, spousal travel, relocation and tuition reimbursement.*

In addition to a base salary, certain employees may earn additional compensation under employee performance and profit sharing plans. Employee profit sharing and incentives are shown in the year earned, which may be different than the year paid. Profits distributed under the employee performance and the Employee Profit Sharing Plans are paid in the first quarter of the year following the fiscal year in which they are earned. The Relationship Manager Performance Plan is paid quarterly following the quarter in which they are earned. The Association's compensation plans are designed to motivate employees and to help the Association meet and exceed its' organizational objectives and financial goals, without taking undue risk.

Annually, the Compensation Committee (board representation) reviews the compensation plans for approval and funding. All Board Compensation Committee minutes are reviewed by the board of directors.

Distributions under the Employee Profit Sharing Plan are awarded when the profits generated meet or exceed the targets, set by management and have been approved by the Board. No distributions were made under the Employee Profit Sharing Plan for 2011 due to goals set by management not being met.

Incentives earned under Discretionary Incentive plan will be paid the first pay period following approval. Discretionary incentives may be recommended at any time by any member of the management team, including supervisors of one or more employees, on the behalf of any employee who has demonstrated meritorious performance. Payment under the Discretionary Incentive plan cannot exceed 5% of the employee's annual base salary. The plan operates on a calendar year and includes all supervised employees. The Compensation Committee approved the Discretionary Plan on February 24, 2011, effective as of January 1, 2011.

The Association's Relationship Manager Performance Plan is designed to focus on sales and marketing and recognizes each relationship manager on his or her individual sales goals as set by management. The goals set by management are designed to appropriately emphasize and recognize both quality and servicing of the Association's portfolio. The primary goal is based on the Risk Adjusted Return on Capital (RAROC) of the Relationship Managers serviced portfolio. The RAROC goal is set by management at a level to maximize returns, while limiting risk to stockholder equity. The three additional goals are: (1) Young, Beginning, and Small Farmer, (2) Rural Home Loans closed, (3) Auto Draft/Online Payments. Each goal is assigned a separate rate of compensation and is aggregated for a total payment.

The Board Compensation Committee approved the Relationship Manager performance Plan February 24, 2011, effective as of January 1, 2011.

Additionally, senior officers as well as all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Disclosure of information on the total compensation paid during 2010 to any senior officer, or to any other individual included in the aggregate, is available to shareholders upon request.

Directors

Directors and senior officers are reimbursed on an actual cost basis for all reasonable and necessary expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $63,231 for 2011, $71,337 for 2010 and $45,515 for 2009.

Subject to approval by the board, directors are compensated for meeting attendance and special assignments. As of December 31, 2011, an honoraria of $400 for attendance or $100 for participation telephonically is paid for meetings, committee meetings excluding Audit Committee, and special assignments. Directors on the Audit Committee are paid an honoraria of $800 for attendance at Audit Committee meetings. In addition, the Chairman of the Audit Committee receives an additional honoraria of $200 per Audit Committee meeting. Expenses incurred in connection with the attendance of the spouse of a director at a compensable function may be reimbursable upon a determination by the board chairman that the attendance of the spouse was or will be beneficial to the purpose of the meeting, and such reimbursement will not be reported as compensation. Total compensation paid to directors, as a group was $176,700. No Directors received any noncash compensation during 2011.

The following chart details the number of meetings and other activities (if applicable) for each director:

	Days served				
Name of Director	**Regular Board Meetings**	***Other Official Activities**	**Committee Meetings Attended**	**Committee Assignments**	**Comp. Paid**
Bobby J. Brooks, Chairman	14	42	12	Executive	$26,300
Robert B. Moss, Vice Chairman	14	21	26	Compensation, Executive, RIMCO (Risk Management), Special Loan, Steering	22,000
T. E. Allen, III	13	18	25	Audit, Building, Compliance, RIMCO (Risk Management), Steering	24,400
Charlie Burch**	4	1	3	Executive	2,900
Jeffrey A. Clark	14	16	30	Audit, Compliance, RIMCO (Risk Management), Special Loan	27,300
James H. Dixon, Jr.	9	11	5	RIMCO (Risk Management)	9,400
Clifford Dollar, Jr.	13	19	22	Audit, Building, Compliance	23,500
Robert L. Holden, Sr.	14	20	31	Building, Compensation, Compliance, RIMCO (Risk Management), Steering	23,900
B. E. Powell	12	15	6	Compensation	12,900
				Total	**$172,600**

** Other Official Activities include Miscellaneous Committee Meetings, Director Training, AgFirst Annual Meeting, FCC Annual Meeting, ACA Annual Meeting*

***Former Vice Chairman*

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years:

Bobby J. Brooks, Chairman, is a peanut and cotton farmer who joined the Board in 1981. His current term will expire in 2012. Mr. Brooks resides near Edison in Clay County. He attended Abraham Baldwin Agricultural College and graduated from the University of Georgia with a degree in Animal Science. He has farmed for 52 years and is involved in a family operation with his son. Mr. Brooks also serves on the boards of Clay County, Inc., a peanut buying point; Edison Gin Company, a cotton gin; and Clay County Farm Bureau, an insurance and farm related services provider.

Robert B. Moss, Vice Chairman, was appointed as an Association outside director in 1993. He currently serves as Vice Chairman of the Board. His current term will expire in 2013. Mr. Moss is a retired Superintendent of the University of Georgia College of Agricultural and Environmental Sciences, Southwest Georgia Branch Experiment Station. Currently, Mr. Moss is a part-time farm management consultant.

T. E. Allen, III, Ph.D., is a peanut and cotton farmer who lives near Shellman in Randolph County. His current term expires in 2012. Mr. Allen earned a bachelor's degree in Political Science from Georgetown College in Kentucky, as well as a master's degree in Political Science from the University of South Carolina. He obtained a doctorate in Political Science from Emory University and taught at the college level for more than six years. Mr. Allen farmed for approximately 20 years, and is currently involved in a family partnership that produces cotton, peanuts, wheat and corn. He also manages timberland. Mr. Allen has served on the Association Board since 1989. Mr. Allen also serves on the Boards of Quality Gin, a cotton gin; and People's Warehouse, a warehouse facility.

Charlie Burch, served as Vice Chairman of the Board through April, 2011. He served a three year term, which expired in 2011. Mr. Burch had been a member of the Board since 1987.

Jeffrey A. Clark, Ph.D., is a Professor of Finance at The Florida State University. He was appointed as an Association Outside Director in 2005. His current term expires in 2014. Mr. Clark serves as the Chairman of the Audit Committee. He resides in Tallahassee, Florida.

James H. Dixon, Jr., is a resident of Camilla in Mitchell County. He is a graduate of the University of Georgia with a bachelor's degree in Agricultural Economics. Mr. Dixon, who joined the Board in 2011, is a poultry producer and his term expires in 2014. Mr. Dixon serves on the Mitchell County Farm Bureau, insurance and farm related services provider.

Clifford Dollar, Jr. is a native of Bainbridge and attended Abraham Baldwin Agricultural College. A cotton, peanut and cattle farmer for the past 47 years, he has served the Association as a Board member since 1987. He is presently serving a three-year term, which will expire in 2012. Mr. Dollar also serves as president of the Board of SOWEGA Cotton, Inc., a cotton gin.

Robert L. Holden, Sr. is a dairy, poultry and row crop producer. His current term will expire in 2013. Mr. Holden, who joined the Board in 1987, also serves on the boards of the Grady County Farm Bureau, an insurance and farm related services provider; Georgia Milk Producers Association, an organization for promoting milk and other interest of Georgia Dairymen; and the

American Dairy Association of Georgia, an organization committed to promoting milk and consumer education.

B. E. Powell is a farmer who has served on the Board since 1968. He resides in Buena Vista. His current term will expire in 2013. Mr. Powell also serves on the Marion County Hospital Authority Board, a healthcare provider.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 12 of the Consolidated Financial Statements, "Related Party Transactions," included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the Board of Directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Certified Public Accountants

There were no changes in or material disagreements with our independent certified public accountant on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees incurred by the Association for services rendered by its independent certified public accountant for the year ended December 31, 2011 were as follows:

	2011
Independent Certified Public Accountant	
PricewaterhouseCoopers LLP	
Audit services	$ 69,614

Audit service fees were for the annual audit of the Consolidated Financial Statements.

Relationship with Third Party Service Provider

	2011
3rd Party Service Provider	
Harper, Rains, Knight & Company	
Nonaudit services	99,840
Tax services	16,440
Total	$ 185,894

Nonaudit services included internal credit reviews, internal operation review, Sarbanes Oxley compliance review and other miscellaneous reviews as needed.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 13, 2012 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and Quarterly Reports are available upon request free of charge by calling 1-229-246-0384 or toll free 1-866-304-3276, or writing Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817, Attention: Chief Financial Officer, or accessing the web site, ***www.swgafarmcredit.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Should you have questions concerning the financial reports or any other information contained within this Annual Report please contact the Stockholder Relations Department by calling 1-866-304-3276, extension 1149.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank'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 by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the web site, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Southwest Georgia Farm Credit (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent certified public accountants for 2011, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 *(Independence Discussions with Audit Committees)*, and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2011. The foregoing report is provided by the following independent directors, who constitute the Committee:

Jeffrey A. Clark
Chairman of the Audit Committee

Members of Audit Committee

T.E. Allen, III
Clifford Dollar, Jr.

March 13, 2012

Report of Independent Certified Public Accountants

pwc

Report of Independent Certified Public Accountants

To the Board of Directors and Members
of Southwest Georgia Farm Credit, ACA

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Southwest Georgia Farm Credit, ACA (the Association) and its subsidiaries at December 31, 2011, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 13, 2012

PricewaterhouseCoopers LLP, 401 E. Las Olas Boulevard, Suite 1800, Fort Lauderdale, FL 33301
T: (954) 764-7111, F: (954)525-4453, www.pwc.com/us

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2011	2010	2009
Assets			
Cash	$ 571	$ 910	$ 2,575
Investment securities:			
Available for sale (amortized cost of $0, $0 and $27,262 respectively)	—	—	27,142
Held to maturity (fair value of $9,313, $8,229 and $6,824 respectively)	8,234	8,383	7,850
Total investment securities	8,234	8,383	34,992
Loans	285,999	294,917	335,972
Less: allowance for loan losses	4,322	5,758	4,858
Net loans	281,677	289,159	331,114
Loans held for sale	—	—	166
Other investments	37,426	48,671	59,302
Accrued interest receivable	4,262	4,143	4,360
Investments in other Farm Credit institutions	9,102	11,047	13,730
Premises and equipment, net	4,144	4,448	4,611
Other property owned	5,963	8,614	1,285
Due from AgFirst Farm Credit Bank	4,452	5,110	6,029
Other assets	3,628	3,766	4,110
Total assets	$ 359,459	$ 384,251	$ 462,274
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 282,203	$ 310,662	$ 388,508
Accrued interest payable	730	840	1,180
Patronage refund payable	960	1,625	18
Other liabilities	8,314	5,313	9,132
Total liabilities	292,207	318,440	398,838
Commitments and contingencies			
Members' Equity			
Protected borrower stock	131	152	255
Capital stock and participation certificates	971	998	1,245
Retained earnings			
Allocated	25,976	25,426	23,894
Unallocated	40,174	39,235	38,162
Accumulated other comprehensive income (loss)	—	—	(120)
Total members' equity	67,252	65,811	63,436
Total liabilities and members' equity	$ 359,459	$ 384,251	$ 462,274

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

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2011	2010	2009
Interest Income			
Investment securities	$ 533	$ 853	$ 916
Loans	15,372	16,489	18,509
Other investments	1,870	2,485	3,096
Total interest income	17,775	19,827	22,521
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	8,996	11,243	15,365
Net interest income	8,779	8,584	7,156
Provision for (reversal of allowance for) loan losses	817	(586)	4,631
Net interest income after provision for (reversal of allowance for) loan losses	7,962	9,170	2,525
Noninterest Income			
Loan fees	715	966	870
Fees for financially related services	5	4	5
Patronage refund from other Farm Credit institutions	4,795	5,453	6,078
Gains (losses) on other property owned, net	(2,380)	(3,428)	(921)
Gains (losses) on sales of premises and equipment, net	69	5	189
Gains (losses) on sales of investment securities	—	(76)	—
Insurance Fund refunds	—	381	—
Other noninterest income	49	42	46
Total noninterest income	3,253	3,347	6,267
Noninterest Expense			
Salaries and employee benefits	5,768	5,237	5,136
Occupancy and equipment	675	640	632
Insurance Fund premiums	147	144	587
Other operating expenses	2,378	2,065	2,192
Total noninterest expense	8,968	8,086	8,547
Income before income taxes	2,247	4,431	245
Provision for income taxes	—	—	2
Net income	$ 2,247	$ 4,431	$ 243

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

Consolidated Statements of Changes in Members' Equity

(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, 2008	$ 297	$ 1,201	$ 23,993	$ 37,890	$ —	$ 63,381
Comprehensive income						
Net income				243		243
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					(120)	(120)
Total comprehensive income						123
Protected borrower stock retired	(42)					(42)
Capital stock/participation certificates issued/(retired), net		44				44
Retained earnings retired			(99)			(99)
Patronage distribution adjustment				29		29
Balance at December 31, 2009	255	1,245	23,894	38,162	(120)	63,436
Comprehensive income						
Net income				4,431		4,431
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					120	120
Total comprehensive income						4,551
Protected borrower stock retired	(103)					(103)
Capital stock/participation certificates issued/(retired), net		(247)				(247)
Patronage distribution						
Cash				(1,620)		(1,620)
Nonqualified allocated retained earnings			1,827	(1,827)		—
Retained earnings retired			(296)			(296)
Patronage distribution adjustment			1	89		90
Balance at December 31, 2010	152	998	25,426	39,235	—	65,811
Net income				2,247		2,247
Protected borrower stock retired	(21)					(21)
Capital stock/participation certificates issued/(retired), net		(27)				(27)
Patronage distribution						
Cash				(951)		(951)
Nonqualified allocated retained earnings			951	(951)		—
Patronage distribution adjustment			(401)	594		193
Balance at December 31, 2011	$ 131	$ 971	$ 25,976	$ 40,174	$ —	$ 67,252

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2011	2010	2009
Cash flows from operating activities:			
Net income	$ 2,247	$ 4,431	$ 243
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	263	244	223
Premium amortization (discount accretion) on investments	(1,870)	(2,256)	(2,567)
Provision for (reversal of allowance for) loan losses	817	(586)	4,631
(Gains) losses on other property owned, net	2,380	3,428	921
(Gains) losses on sales of premises and equipment, net	(69)	(5)	(189)
(Gains) losses on sales of investment securities	—	76	—
Changes in operating assets and liabilities:			
(Increase) decrease in loans held for sale, net	—	166	(166)
(Increase) decrease in accrued interest receivable	(119)	217	1,772
(Increase) decrease in due from AgFirst Farm Credit Bank	658	919	208
(Increase) decrease in other assets	138	344	234
Increase (decrease) in accrued interest payable	(110)	(340)	(483)
Increase (decrease) in other liabilities	3,001	(3,819)	2,483
Total adjustments	5,089	(1,612)	7,067
Net cash provided by (used in) operating activities	7,336	2,819	7,310
Cash flows from investing activities:			
Purchases of investment securities, held to maturity	—	(893)	(1,499)
Proceeds from maturities of or principal payments received on investment securities, held to maturity	149	360	3,206
Proceeds from sales/maturities of or principal payments received on investment securities, available for sale	—	26,957	2,359
Net (increase) decrease in loans	1,031	26,414	29,914
(Increase) decrease in investment in other Farm Credit institutions	1,945	2,683	2,516
Purchases of other investments	—	—	(4)
Proceeds from payments received on other investments	13,115	13,116	13,115
Purchases of premises and equipment	(303)	(83)	(1,913)
Proceeds from sales of premises and equipment	413	7	650
Proceeds from sales of other property owned	5,905	5,164	6,185
Net cash provided by (used in) investing activities	22,255	73,725	54,529
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(28,459)	(77,846)	(62,232)
Protected borrower stock retired	(21)	(103)	(42)
Capital stock and participation certificates issued/(retired), net	(27)	(247)	44
Patronage refunds and dividends paid	(1,423)	(13)	(5)
Net cash provided by (used in) financing activities	(29,930)	(78,209)	(62,235)
Net increase (decrease) in cash	(339)	(1,665)	(396)
Cash, beginning of period	910	2,575	2,971
Cash, end of period	$ 571	$ 910	$ 2,575
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	$ 5,634	$ 16,127	$ 4,666
Estimated cash dividends or patronage distributions declared or payable	951	1,620	—
Change in unrealized gains (losses) on investments	—	120	(120)
Reclassification of investments from held to maturity to available for sale	—	—	29,856
Allocated retained earnings transferred to loans net of $0, $90, and $29 to unallocated retained earnings respectively	—	(206)	(70)
Supplemental information:			
Interest paid	$ 9,106	$ 11,583	$ 15,848

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Southwest Georgia Farm Credit, ACA (the Association or ACA) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified purposes in the counties of Baker, Calhoun, Chattahoochee, Clay, Decatur, Dougherty, Early, Grady, Lee, Marion, Miller, Mitchell, Quitman, Randolph, Schley, Seminole, Stewart, Sumter, Terrell, Thomas, and Webster in the state of Georgia.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2011, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and eighty-four associations.

AgFirst Farm Credit Bank (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to associations within the District and is responsible for supervising certain activities of the Association, as well as the other associations operating within the District. The District consists of the Bank and twenty Agricultural Credit Associations (ACAs), all of which are structured as ACA parent-companies, which have two wholly owned subsidiaries, a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA). FLCAs are tax-exempt while ACAs and PCAs are taxable.

ACA parent-companies provide financing and related services through its FLCA and PCA subsidiaries. The FLCA makes collateralized long-term agricultural real estate and rural home mortgage loans. The PCA is authorized to make short- and intermediate-term loans for agricultural production or operating purposes; however, the Association is operating its short- and intermediate-term business through the ACA instead of the PCA.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

Certain amounts in prior years' financial statements may have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on net income or total members' equity of prior years. The Consolidated Financial Statements include the accounts of the FLCA and the PCA. All significant inter-company transactions have been eliminated in consolidation.

A. **Cash:** Cash, as included in the statements of cash flows, represents cash on hand and on deposit at banks.

B. **Investment Securities**: The Association, as permitted under the FCA regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. The Association's investments are classified as held-to-maturity or available-for-sale. If classified as held-to-maturity, these investments are reported at amortized cost. If classified as available-for-sale, these investments are reported at fair value with unrealized gains and losses netted and reported as a separate component of members' equity (accumulated other comprehensive income (loss)) in the Consolidated Balance Sheets. Changes in the fair value of investments classified as available-for-sale are reflected as direct charges or credits to members' equity. Realized gains and losses are recognized in current earnings using the specific identification method for determining the cost basis to be used. Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security which approximates the effective interest method.

   The Association may also hold additional investments in accordance with mission-related investment and other investment programs approved by the Farm Credit Administration. These programs allow the Association to make investments that further the System's mission to serve rural America. Mission-related investments for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

   The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, if the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell the other-than-temporary impaired security and it is not more likely than not that it would be required to sell the security, the carrying value of the security would be written down to fair value, the credit-related loss would be included in earnings in the period of impairment and the non-credit related portion would be recognized in other comprehensive income. Credit related loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

C. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have original maturities ranging from 5 to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs.

   Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

   When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

   Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

   In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

   The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses existing as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

   The Association uses a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

   Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including current production and economic conditions, loan portfolio composition, collateral value, portfolio quality, and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The Association considers the following factors when adjusting the historical charge-offs experience:

- Changes in credit risk classifications,
- Changes in collateral values,
- Changes in risk concentrations,
- Changes in weather related conditions, and
- Changes in economic conditions.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans, and could include loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance for loan losses reversals and loan charge-offs.

D. **Other Investments:** Other investments include Tobacco Buyout Successor-in-Interest Contracts (SIIC), which qualify as mission related investments under FCA regulations. Under the SIIC, the tobacco quota holders and producers may sell their rights to receive SIIC contract payments to a third party. The successor purchases the entire contract and all related rights and obligations associated with the contract. These investments in SIIC are purchased at a discount. Contract payments are made by the United States Department of Agriculture (USDA) in equal annual payments. Interest income is recognized from the accretion of discounts using the effective interest method.

E. **Investment in Other Farm Credit Institutions:** Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class C stock. Accounting for this investment is on the cost plus allocated equities basis.

F. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in gains (losses) on other property owned, net.

G. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

H. **Advanced Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

I. **Employee Benefit Plans:** Substantially all employees of the Association may participate in either the AgFirst Farm Credit Final Average Pay Retirement Plan or the AgFirst Farm Credit Cash Balance Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer plans. These two Plans are noncontributory and include eligible District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of these Plans are allocated to each participating entity, including the Association, by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plans' participants.

Substantially all employees of the Association may also be eligible to participate in a defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $.50 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. 401(k) plan costs are expensed as funded.

The Association may provide certain health care and life insurance benefits to eligible retired employees. Substantially all employees may become eligible for these benefits if they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits.

J. **Income Taxes:** The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

K. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis. The patronage receivable is included in the amount due from AgFirst Farm Credit Bank.

L. **Fair Value Measurement:** FASB guidance defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The 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 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It describes three levels of inputs that may be used to measure fair value as discussed in Note 15.

M. **Recently Issued Accounting Pronouncements:** In December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, "Balance Sheet (Topic 220) - Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will result in additional disclosures.

In September 2011, the FASB issued ASU 2011-09, "Compensation (Topic 715): Retirement Benefits – Multiemployer Plans." The amendment is intended to provide for more information about an employer's financial obligations to multiemployer pension and other postretirement benefit plans, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include the following: (1) a description of the nature of plan benefits; (2) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and (3) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented. The adoption did not impact the Association's financial condition or results of operation but did result in additional disclosures (see Note 12).

In June 2011, the 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 has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. 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 will not impact the Association's financial condition or results of operations, but will result 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 are 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 will not impact the Association's financial condition or results of operations, but will result 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, including the District, 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 (see Note 4).

In July 2010, the FASB issued ASU 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This amendment provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period were effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in significant additional disclosures (see Note 4).

Effective January 1, 2010, the Association adopted ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820)" which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 15).

Note 3 — Investment Securities

During June 2010, the Association sold its available-for-sale asset backed securities (ABSs) portfolio in the amount of $24,112 with a realized loss of $(76). A summary of the amortized cost and fair value of investment securities available-for-sale at December 31, 2009 follows. The Association had no investment securities available for sale at December 31, 2011 or 2010.

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	$ 27,262	$ 55	$ (175)	$ 27,142	1.37%

A summary of the amortized cost and fair value of investment securities held-to-maturity at December 31, 2011, 2010 and 2009 follows:

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 8,234	$1,091	$ (12)	$ 9,313	6.40%

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 8,383	$ 91	$ (245)	$ 8,229	6.40%

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 7,850	$ 52	$ (1,078)	$ 6,824	6.58%

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

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	2,316	2,733	7.26
After ten years	5,918	6,580	6.07
Total	$ 8,234	$ 9,313	6.40%

The Association's held-to-maturity mission-related investments consist of private placement securities purchased under the Rural America Bond Program approved by the FCA.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at December 31, 2011, 2010 and 2009:

	December 31, 2011			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission related investments	$ 1,296	$ (12)	$ –	$ –

	December 31, 2010			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission related investments	$ 5,898	$ (245)	$ –	$ –

	December 31, 2009			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ 11,922	$ (89)	$ 6,816	$ (86)
Mission related investments	6,824	(1,078)	–	–
Total	$ 18,746	$ (1,167)	$ 6,816	$ (86)

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes.

Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment as the unrealized losses resulted primarily from reduced liquidity in the securities markets stemming from general adversity in the financial markets. Full payment of principal and interest is expected. The Association has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements. The Association does not intend to sell these investments and it is not likely that the Association would be required to sell these investments before recovering its costs.

Note 4 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31,		
(dollars in thousands)	2011	2010	2009
Real estate mortgage	$ 180,765	$ 180,051	$ 187,015
Production and intermediate-term	68,299	68,562	90,137
Agribusiness			
Processing and marketing	18,444	33,650	35,797
Farm-related business	14,798	8,551	18,238
Total agribusiness	33,242	42,201	54,035
Rural residential real estate	3,693	4,103	4,785
Total Loans	$ 285,999	$ 294,917	$ 335,972

A substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

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

	December 31,2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 19,466	$ 44,257	$ –	$ –	$ –	$ –	$ 19,466	$ 44,257
Production and intermediate-term	13,737	18,113	–	2	1,064	–	14,801	18,115
Agribusiness								
Processing and marketing	4,840	38,016	1,988	–	–	–	6,828	38,016
Farm-related business	4,123	5,090	–	860	–	–	4,123	5,950
Total agribusiness	8,963	43,106	1,988	860	–	–	10,951	43,966
Total	$ 42,166	$ 105,476	$ 1,988	$ 862	$ 1,064	$ –	$ 45,218	$ 106,338

	December 31,2010							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 29,900	$ 63,496	$ –	$ –	$ 2,728	$ –	$ 32,628	$ 63,496
Production and intermediate-term	25,486	23,299	1,243	–	1,843	–	28,572	23,299
Agribusiness								
Processing and marketing	12,803	6,225	1,770	–	2,737	–	17,310	6,225
Farm-related business	1,266	6,357	–	910	–	–	1,266	7,267
Total agribusiness	14,069	12,582	1,770	910	2,737	–	18,576	13,492
Total	$ 69,455	$ 99,377	$ 3,013	$ 910	$ 7,308	$ –	$ 79,776	$ 100,287

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 December 31, 2011 and indicates that approximately 17.63 percent of loans had maturities of less than one year:

(dollars in thousands)	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 10,347	$ 36,416	$ 134,002	$ 180,765
Production and intermediate-term	30,189	34,052	4,058	68,299
Agribusiness				
Processing and marketing	4,791	7,920	5,733	18,444
Farm-related business	4,982	2,828	6,988	14,798
Total agribusiness	9,773	10,748	12,721	33,242
Rural residential real estate	102	463	3,128	3,693
Total Loans	$ 50,411	$ 81,679	$ 153,909	$ 285,999

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31, 2011, 2010, and 2009:

	2011	2010	2009
Real estate mortgage:			
Acceptable	91.97%	92.53%	88.64%
OAEM	1.11	0.35	1.52
Substandard/doubtful/loss	6.92	7.12	9.84
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	89.36%	87.32%	64.44%
OAEM	1.78	7.06	11.78
Substandard/doubtful/loss	8.86	5.62	23.78
	100.00%	100.00%	100.00%
Agribusiness:			
Processing and marketing:			
Acceptable	89.95%	52.14%	60.12%
OAEM	9.78	30.57	10.53
Substandard/doubtful/loss	0.27	17.29	29.35
	100.00%	100.00%	100.00%

	2011	2010	2009
Farm-related business:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total agribusiness:			
Acceptable	94.41%	61.74%	73.47%
OAEM	5.44	24.44	7.01
Substandard/doubtful/loss	0.15	13.82	19.52
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	88.25%	93.42%	94.75%
OAEM	8.95	6.58	0.44
Substandard/doubtful/loss	2.80	–	4.81
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	91.59%	86.97%	79.81%
OAEM	1.87	5.41	5.13
Substandard/doubtful/loss	6.54	7.62	15.06
	100.00%	100.00%	100.00%

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

December 31, 2011

(dollars in thousands)	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	$ 4,500	$ 4,664	$ 9,164	$ 174,602	$ 183,766	$ –
Production and intermediate-term	–	5,643	5,643	63,446	69,089	–
Agribusiness						
Processing and marketing	–	–	–	18,690	18,690	–
Farm-related business	–	–	–	14,911	14,911	–
Total agribusiness	–	–	–	33,601	33,601	–
Rural residential real estate	16	85	101	3,618	3,719	–
Total	$ 4,516	$ 10,392	$ 14,908	$ 275,267	$ 290,175	$ –

December 31, 2010

(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,296	$ 8,354	$ 9,650	$ 173,161	$ 182,811	$ –
Production and intermediate-term	2,750	3,377	6,127	63,381	69,508	–
Agribusiness						
Processing and marketing	–	930	930	32,907	33,837	–
Farm-related business	–	–	–	8,680	8,680	–
Total agribusiness	–	930	930	41,587	42,517	–
Rural residential real estate	29	–	29	4,107	4,136	–
Total	$ 4,075	$ 12,661	$ 16,736	$ 282,236	$ 298,972	$ –

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 are as follows:

(dollars in thousands)	December 31, 2011	2010	2009
Nonaccrual loans:			
Real estate mortgage	$ 5,438	$ 8,576	$ 11,081
Production and intermediate-term	5,886	4,766	14,883
Agribusiness			
Processing and marketing	944	5,850	8,577
Total agribusiness	944	5,850	8,577
Rural residential real estate	85	–	–
Total nonaccrual loans	$ 12,353	$ 19,192	$ 34,541
Accruing restructured loans:			
Real estate mortgage	$ 2,748	$ 1,136	$ 161
Production and intermediate-term	244	19	24
Total accruing restructured loans	$ 2,992	$ 1,155	$ 185
Accruing loans 90 days or more past due:			
Total accruing loans 90 days or more past due	$ –	$ –	$ –
Total nonperforming loans	$ 15,345	$ 20,347	$ 34,726
Other property owned	5,963	8,614	1,285
Total nonperforming assets	$ 21,308	$ 28,961	$ 36,011
Nonaccrual loans as a percentage of total loans	4.32%	6.51%	10.28%
Nonperforming assets as a percentage of total loans and other property owned	7.30%	9.54%	10.68%
Nonperforming assets as a percentage of capital	31.68%	44.01%	56.77%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

(dollars in thousands)	December 31, 2011	2010	2009
Impaired nonaccrual loans:			
Current as to principal and interest	$ 1,961	$ 6,516	$ 15,168
Past due	10,392	12,676	19,373
Total impaired nonaccrual loans	12,353	19,192	34,541
Impaired accrual loans:			
Restructured	2,992	1,155	185
90 days or more past due	–	–	–
Total impaired accrual loans	2,992	1,155	185
Total impaired loans	$ 15,345	$ 20,347	$ 34,726

Additional impaired loan information is as follows:

	December 31, 2011			Year Ended December 31, 2011	
(dollars in thousands)	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	$ 2,782	$ 2,763	$ 326	$ 3,490	$ 46
Production and intermediate-term	5,014	5,705	1,659	6,291	83
Agribusiness					
Processing and marketing	–	–	–	–	–
Total agribusiness	–	–	–	–	–
Total	$ 7,796	$ 8,468	$ 1,985	$ 9,781	$ 129
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 5,404	$ 6,044	$ –	$ 6,781	$ 89
Production and intermediate-term	1,116	5,678	–	1,400	18
Agribusiness					
Processing and marketing	944	944	–	1,185	16
Total agribusiness	944	944	–	1,185	16
Rural residential real estate	85	84	–	106	1
Total	$ 7,549	$ 12,750	$ –	$ 9,472	$ 124
Total impaired loans:					
Real estate mortgage	$ 8,186	$ 8,807	$ 326	$ 10,271	$ 135
Production and intermediate-term	6,130	11,383	1,659	7,691	101
Agribusiness					
Processing and marketing	944	944	–	1,185	16
Total agribusiness	944	944	–	1,185	16
Rural residential real estate	85	84	–	106	1
Total	$ 15,345	$ 21,218	$ 1,985	$ 19,253	$ 253

	December 31, 2010			Year Ended December 31, 2010	
(dollars in thousands)	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	$ 3,163	$ 6,193	$ 183	$ 4,317	$ 158
Production and intermediate-term	1,260	1,468	140	1,720	63
Agribusiness					
Processing and marketing	5,850	6,182	865	7,986	293
Total agribusiness	5,850	6,182	865	7,986	293
Total	$ 10,273	$ 13,843	$ 1,188	$ 14,023	$ 514
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 6,549	$ 6,753	$ –	$ 10,101	$ 370
Production and intermediate-term	3,525	7,531	–	3,649	134
Agribusiness					
Processing and marketing	–	–	–	–	–
Total agribusiness	–	–	–	–	–
Total	$ 10,074	$ 14,284	$ –	$ 13,750	$ 504
Total impaired loans:					
Real estate mortgage	$ 9,712	$ 12,946	$ 183	$ 14,418	$ 528
Production and intermediate-term	4,785	8,999	140	5,369	197
Agribusiness					
Processing and marketing	5,850	6,182	865	7,986	293
Total agribusiness	5,850	6,182	865	7,986	293
Total	$ 20,347	$ 28,127	$ 1,188	$ 27,773	$ 1,018

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 December 31, 2011.

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

(dollars in thousands)	Year Ended December 31, 2011	2010	2009
Interest income which would have been recognized under the original loan terms	$ 1,030	$ 2,627	$ 2,476
Less: interest income recognized	253	924	196
Foregone interest income	$ 777	$ 1,703	$ 2,280

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

December 31, 2011	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Residential Real Estate	Total
Allowance for credit losses:					
Balance at December 31, 2010	$ 2,856	$ 1,348	$ 1,472	$ 82	$ 5,758
Charge-offs	(553)	(2,924)	(2,999)	–	(6,476)
Recoveries	2,180	2,043	–	–	4,223
Provision for loan losses	(2,664)	1,727	1,805	(51)	817
Adjustment due to merger	–	–	–	–	–
Other	–	–	–	–	–
Balance at December 31, 2011	$ 1,819	$ 2,194	$ 278	$ 31	$ 4,322
December 31, 2011 allowance ending balance:					
Loans individually evaluated for impairment	$ 326	$ 1,659	$ –	$ –	$ 1,985
Loans collectively evaluated for impairment	$ 1,493	$ 535	$ 278	$ 31	$ 2,337
Recorded investment in loans outstanding:					
Ending Balance at December 31, 2011	$ 183,766	$ 69,089	$ 33,601	$ 3,719	$ 290,175
December 31, 2011 recorded investment ending balance:					
Loans individually evaluated for impairment	$ 8,186	$ 6,130	$ 944	$ 85	$ 15,345
Loans collectively evaluated for impairment	$ 175,580	$ 62,959	$ 32,657	$ 3,634	$ 274,830

	December 31, 2010				
	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Residential Real Estate	Total
Allowance for credit losses:					
Balance at December 31, 2009	$ 1,738	$ 1,113	$ 1,962	$ 45	$ 4,858
Charge-offs	(3,765)	(3,199)	(1)	–	(6,965)
Recoveries	248	8,190	13	–	8,451
Provision for loan losses	4,635	(4,756)	(502)	37	(586)
Balance at December 31, 2010	$ 2,856	$ 1,348	$ 1,472	$ 82	$ 5,758
December 31, 2010 allowance ending balance:					
Loans individually evaluated for impairment	$ 183	$ 140	$ 865	$ –	$ 1,188
Loans collectively evaluated for impairment	$ 2,673	$ 1,208	$ 607	$ 82	$ 4,570
Recorded investment in loans outstanding:					
Ending Balance at December 31, 2010	$ 182,811	$ 69,508	$ 42,517	$ 4,136	$ 298,972
December 31, 2010 recorded investment ending balance:					
Loans individually evaluated for impairment	$ 9,712	$ 4,785	$ 5,850	$ –	$ 20,347
Loans collectively evaluated for impairment	$ 173,099	$ 64,723	$ 36,667	$ 4,136	$ 278,625

To mitigate risk of loan losses, the Association has entered into Long-Term Standby Commitments to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under Long-Term Standby Commitments to Purchase held by the Association was $14.1 million, $8.9 million, and $7.5 million at December 31, 2011, 2010, and 2009, respectively. Fees paid to Farmer Mac for such commitments totaled $47 thousand, $46 thousand, and $59 thousand for 2011, 2010, and 2009, respectively.

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 table presents additional information regarding troubled debt restructurings as of the restructuring date that occurred during the year ended December 31, 2011. The table does not include purchased credit impaired loans.

	Pre-modification Outstanding Recorded Investment			
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 547	$ 594	$ 1,141
Production and intermediate-term	–	79	3,123	3,202
Total	$ –	$ 626	$ 3,717	$ 4,343

	Post-modification Outstanding Recorded Investment				Effects of Modification	
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 545	$ 590	$ 1,135	$ –	$ –
Production and intermediate-term	–	78	2,145	2,223	(4)	–
Total	$ –	$ 623	$ 2,735	$ 3,358	$ (4)	$ –

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 troubled debt restructurings that occurred during the year ended December 31, 2011 and for which there was a subsequent payment default during this same period. Payment default is defined as a payment that was thirty days or more past due.

TDRs outstanding at December 31, 2011 totaled $5,391, of which $2,399 were in nonaccrual status.

Note 5 — Other Investments

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provides for payments to tobacco "quota owners" and producers for the elimination of the quota, and provides an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive 10 equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that they may obtain a lump sum or other payment. On April 4, 2005, the USDA issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA determined that System institutions are "financial institutions" within the meaning of the Tobacco Act and are, therefore, eligible to participate in the Tobacco Buyout. The FCA recognized that the Tobacco Buyout has significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA's goal is to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

For the years ended December 31, 2011, 2010 and 2009, the Association held Tobacco Buyout SIIC of $37,426, $48,671 and $59,302, respectively, net of discount.

Note 6 — Investment in Other Farm Credit Institutions

Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class C stock. Accounting for this investment is on the cost plus allocated equities basis. The Association's investment in the Bank totaled $7,805 for 2011, $9,904 for 2010 and $12,605 for 2009.

Note 7 — Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2011	2010	2009
Land	$ 767	$ 939	$ 939
Buildings and improvements	3,885	4,295	4,245
Furniture and equipment	1,343	1,381	1,402
	5,995	6,615	6,586
Less: accumulated depreciation	1,851	2,167	1,975
Total	$ 4,144	$ 4,448	$ 4,611

Note 8 — Other Property Owned

Net gains (losses) on other property owned consist of the following:

	December 31, 2011	2010	2009
Gains (losses) on sale, net	$ 597	$ 12	$ (419)
Carrying value unrealized gains (losses)	(2,731)	(3,013)	(453)
Operating income (expense), net	(246)	(427)	(49)
Gains (losses) on other property owned, net	$ (2,380)	$ (3,428)	$ (921)

Other Property Owned consisted of nine, five, and two properties with book values of $5,963, $8,614 and $1,285 at December 31, 2011, 2010, and 2009, respectively. At December 31, 2011, Other Property Owned consisted of one property with a book value of $1,007 that was added to the portfolio prior to 2011. During 2011, eleven properties were sold, representing a book value of $5,456, for a net gain of $597.

Note 9 — Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings, and capital covenants. The Association failed to meet its earnings covenant under the GFA at December 31, 2011. The default allows the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank has approved a waiver of the default and has allowed the Association to operate under a special credit arrangement pursuant to its GFA. The special credit agreement expires on July 31, 2012.

Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association. The weighted average interest rates on the variable rate notes were 1.57 percent for LIBOR-based loans, 1.69 percent for Prime-based loans, and the weighted average remaining maturities were 2.9 years and 6.4 years, respectively, at December 31, 2011. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.06 percent and the weighted average remaining maturity was 8.2 years at December 31, 2011. The weighted average interest rate on all interest-bearing notes payable was 2.68 percent and the weighted average remaining maturity was 7.0 years at December 31, 2011.

Variable rate and fixed rate notes payable represent approximately 24.13 percent and 75.87 percent, respectively, of total notes payable at December 31, 2011.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition.

Note 10 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. **Protected Borrower Equity**

Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. **Capital Stock and Participation Certificates**

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of $1 thousand or two percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

C. **Regulatory Capitalization Requirements and Restrictions**

FCA's capital adequacy regulations require the Association to achieve permanent capital of 7.00 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the 7.00 percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's consolidated financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of seven percent and of core surplus as a percentage of risk-adjusted assets of three and one-half percent. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2011 were 20.64 percent, 20.28 percent and 17.03 percent, respectively.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

D. **Description of Equities**

The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars per share.

The Association had the following shares outstanding at December 31, 2011:

		Shares Outstanding	
Class	**Protected**	**Number**	**Aggregate Par Value**
A Common/Nonvoting	Yes	76	$ –
B Common/Nonvoting	Yes	25,612	128
C Common/Voting	No	182,325	911
B Participation Certificates/Nonvoting	Yes	608	3
C Participation Certificates/Nonvoting	No	11,951	60
Total Capital Stock and Participation Certificates		220,572	1,102

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board of Directors are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2011, allocated members' equity consisted of $16,269 of nonqualified allocated surplus and $9,707 of nonqualified retained surplus.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash. Amounts not distributed are retained as unallocated members' equity.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A or D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B and C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Transfer

Classes A and D Preferred, Classes A, B and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Assistance preferred Stock
2. Allocated Retained Earnings in its entirety
3. Class C Common Stock and Class C Participation Certificates
4. Classes A and B Common Stock and Class B Participation Certificates
5. Classes A and D Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Classes A and D Preferred Stock
2. Classes A and B Common Stock and Class B Participation Certificates

3. Class C Common Stock and Class C Participation Certificates
4. Allocated surplus evidenced by qualified written notices of allocation on the basis of oldest allocations first
5. Allocated surplus evidenced by nonqualified notices of allocation on the basis of oldest allocations first
6. All Unallocated Retained Earnings issued after January 1, 1995 shall be distributed to the holders of Class C Stock and Class C Participation Certificates from January 1, 1995 through the date of liquidation on a patronage basis; and
7. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

E. **Other Comprehensive Income (Loss)**

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association reported OCI of $(120) in 2009 for unrealized gains (losses) on investments available for sale (see Note 3 for further information). This amount was realized in 2010 upon sale of available for sale securities and included in net income.

Note 11 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31, 2011	2010	2009
Current:			
Federal	$ –	$ –	$ 1
State	–	–	1
	–	–	2
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	
Total provision (benefit) for income taxes	$ –	$ –	$ 2

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31, 2011	2010	2009
Federal tax at statutory rate	$ 764	$ 1,507	$ 82
State tax, net	–	–	1
Patronage distributions	(323)	(244)	–
Tax-exempt FLCA earnings	327	(1,160)	(989)
Change in valuation allowance	(582)	(168)	991
Other	(186)	65	(83)
Provision (benefit) for income taxes	$ –	$ –	$ 2

Deferred tax assets and liabilities are comprised of the following at:

	December 31, 2011	2010	2009
Deferred income tax assets:			
Allowance for loan losses	$ 468	$ 630	$ 1,371
Pensions and other postretirement benefits	421	398	389
Depreciation	–	–	45
Loss carryforwards	4,647	5,267	4,611
Gross deferred tax assets	5,536	6,295	6,416
Less: valuation allowance	(5,200)	(5,782)	(5,950)
Gross deferred tax assets, net of valuation allowance	336	513	466
Deferred income tax liabilities:			
Loan fees	(1)	(1)	(1)
Depreciation	(33)	(36)	–
Pensions and other postretirement benefits	(302)	(476)	(465)
Gross deferred tax liability	(336)	(513)	(466)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2011, deferred income taxes have not been provided by the Association on approximately $2 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $5,200 during 2011, $5,782 in 2010 and $5,950 in 2009. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2011 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2008 and forward.

Note 12 — Employee Benefit Plans

The Association participates in four District sponsored benefit plans. These plans include two multiemployer defined benefit pension plans, the AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP) and the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB). In addition, the Association participates in a multiemployer defined benefit other postretirement benefits plan (OPEB), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan and a defined contribution 401(k) plan. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

a) Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c) If the Bank chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The Association's participation in the multiemployer defined benefit plans for the annual period ended December 31, 2011, 2010 and 2009 is outlined in the table below. The "Percentage Funded to Projected Benefit Obligation" or "Percentage Funded to Accumulated Postretirement Benefit Obligation" represents the funded amount for the entire plan and the "Contributions" and "Percentage of Total Contributions" columns represent the Association's respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
AgFirst Farm Credit Retirement Plan	74.82%	75.75%	71.65%	$869	$917	$1,066	2.19%	2.22%	2.27%
AgFirst Farm Credit Cash Balance Retirement Plan	81.77%	115.95%	145.01%	$28	$16	$29	3.60%	3.47%	3.29%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$81	$86	$82	1.36%	1.47%	1.42%

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number

2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the Association are eligible to participate in either the FAP Plan or the CB Plan. These two Plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution into the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants Plan expenses included in employee benefit costs were $1,078 for 2011, $992 for 2010, and $919 for 2009. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $170 for 2011, $129 for 2010, and $121 for 2009. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of other liabilities in the Association's Consolidated Balance Sheets.

The Association also participates in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $132, $127, and $126 for the years ended December 31, 2011, 2010, and 2009, respectively.

Additional financial information for the four District sponsored multi-employer plans may be found in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2011 Annual Report.

Note 13 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2011 amounted to $4,556. During 2011, $2,989 of new loans were made and repayments totaled $3,695. In the opinion of management, none of these loans outstanding at December 31, 2011 involved more than a normal risk of collectibility.

Note 14 — Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2011, $50,578 of commitments to extend credit and no commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2011, the Association had outstanding $569 of standby letters of credit, with expiration dates ranging from January 1, 2012 to January 12, 2013. The maximum potential amount of future payments the Association may be required to make under these existing guarantees is $569.

A guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the guarantee commitment. The Association has determined the fair value of the guarantee commitment based upon the fees to be earned over the life of the guarantee. The fair value is updated periodically to reflect changes in individual guarantee amounts and the remaining life to maturity of the individual guarantees in the Association's inventory. At December 31, 2011, the Association's inventory of standby letters of credit had a fair value of $14 and was included in other liabilities.

During 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investments Company (RBIC). At December 31, 2011 all remaining outstanding commitment had been drawn. There are no commitments to make additional equity purchases.

Note 15 — 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 non-recurring basis. These assets and liabilities consist primarily of investments available for sale, standby letters of credit, impaired loans and other property owned.

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

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

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association has no Level 1 assets or liabilities at December 31, 2011.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and no Level 2 liabilities measured at fair value on a recurring basis at December 31, 2011. All Association Level 2 assets available-for-sale were sold in June of 2010. Level 2 assets include available-for-sale investment securities that are traded in active, non-exchange markets. These securities are U.S. agency debt securities, all of which have unadjusted values from third-party or internal pricing models. The fair value of available-for-sale investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

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 instrument 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 December 31, 2011 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Other property owned is classified as a Level 3 asset at December 31, 2011. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at December 31, 2011 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2011, 2010, and 2009 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	$ –	$ –	$ 14	$ 14
Total Liabilities	$ –	$ –	$ 14	$ 14

	December 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 23	$ 23
Total Liabilities	$ –	$ –	$ 23	$ 23

	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale	$ –	$ 27,142	$ –	$ 27,142
Total Assets	$ –	$ 27,142	$ –	$ 27,142
Liabilities:				
Standby letters of credit	$ –	$ –	$ 15	$ 15
Total Liabilities	$ –	$ –	$ 15	$ 15

The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during 2011, 2010, or 2009. The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for 2011, 2010, and 2009:

	Standby Letters Of Credit
Balance at January 1, 2011	$ 23
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases	–
Sales	–
Issuances	–
Settlements	(9)
Transfers in and/or out of level 3	–
Balance at December 31, 2011	$ 14

		Standby Letters Of Credit
Balance at January 1, 2010	$	15
Total gains or (losses) realized/unrealized:		
Included in earnings		–
Included in other comprehensive loss		–
Purchases, sales, issuances and settlements, net		8
Transfers in and/or out of level 3		–
Balance at December 31, 2010	$	23

		Standby Letters Of Credit
Balance at January 1, 2009	$	40
Total gains or (losses) realized/unrealized:		
Included in earnings		–
Included in other comprehensive loss		–
Purchases, sales, issuances and settlements, net		(25)
Transfers in and/or out of level 3		–
Balance at December 31, 2009	$	15

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

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2011, 2010, and 2009 for each of the fair value hierarchy values are summarized below. As discussed in note 2, fair value disclosure of nonfinancial instruments, such as other property owned, began in 2009.

December 31, 2011	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired Loans	$ –	$ –	$ 5,811	$ 5,811	$ (3,050)
Other Property Owned	$ –	$ –	$ 5,963	$ 5,963	$ (2,134)

December 31, 2010	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired Loans	$ –	$ –	$ 9,086	$ 9,086	$ (2,032)
Other Property Owned	$ –	$ –	$ 8,614	$ 8,614	$ (3,001)

December 31, 2009	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired Loans	$ –	$ –	$ 4,794	$ 4,794	$ (2,283)
Other Property Owned	$ –	$ –	$ 1,285	$ 1,285	$ (872)

Note 16 — Disclosures About Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2011, 2010, and 2009.

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

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

	December 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	$ 571	$ 571	$ 910	$ 910
Loans, net of allowance	$ 281,677	$ 284,552	$ 289,159	$ 287,254
Accrued interest receivable	$ 4,262	$ 4,262	$ 4,143	$ 4,143
Investment securities	$ 8,234	$ 9,313	$ 8,383	$ 8,229
Other investments	$ 37,426	$ 38,678	$ 48,671	$ 50,715
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 282,933	$ 289,311	$ 311,502	$ 315,491

	December 31, 2009	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 2,575	$ 2,575
Loans, net of allowance	$ 331,280	$ 334,154
Accrued interest receivable	$ 4,360	$ 4,360
Investment securities	$ 34,992	$ 33,966
Other investments	$ 59,302	$ 63,060
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 389,688	$ 398,426

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

A. **Cash:** The carrying value is primarily a reasonable estimate of fair value.

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

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

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

Fair value of loans held for sale, which have been included in loans, net of allowance in the table above, is estimated to be the carrying amount of the loans.

C. **Accrued Interest Receivable:** The carrying value of accrued interest approximates its fair value.

D. **Investment Securities:** For asset-backed securities, fair value is primarily based upon prices obtained from a third party valuation service. See Note 15 for further information. For mission-related investments, fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.

E. **Investment in Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. As described in Note 6, the net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 2.22 percent of the issued stock of the Bank as of December 31, 2011 net of any reciprocal investment. As of that date, the Bank's assets totaled $29.6 billion and shareholders' equity totaled $2.1 billion. The Bank's earnings were $385 million during 2011.

In addition, the Association has an investment of $1,297 related to other Farm Credit institutions.

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

G. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

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

Note 17 — Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2011, 2010 and 2009 follow:

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,020	$ 2,291	$ 2,261	$ 2,207	$ 8,779
Provision for (reversal of allowance for) loan losses	134	528	155	–	817
Noninterest income (expense), net	(932)	(2,786)	(1,495)	(502)	(5,715)
Net income (loss)	$ 954	$ (1,023)	$ 611	$ 1,705	$ 2,247

	2010				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,231	$ 1,930	$ 2,209	$ 2,214	$ 8,584
Provision for (reversal of allowance for) loan losses	–	(1,700)	1,114	–	(586)
Noninterest income (expense), net	(231)	(2,474)	(1,381)	(653)	(4,739)
Net income (loss)	$ 2,000	$ 1,156	$ (286)	$ 1,561	$ 4,431

	2009				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,750	$ 1,787	$ 1,901	$ 1,718	$ 7,156
Provision for (reversal of allowance for) loan losses	–	2,463	2,168	–	4,631
Noninterest income (expense), net	(405)	(503)	1,281	(2,655)	(2,282)
Net income (loss)	$ 1,345	$ (1,179)	$ 1,014	$ (937)	$ 243

Note 18 – Regulatory Enforcement Matters

During the first quarter of 2010, the FCA entered into a written supervisory agreement with the Association. The written supervisory agreement required the Association to take corrective actions with respect to certain areas of its operations, including capital, portfolio management, and asset quality. The Association remains under written supervisory agreement as of the date of this report.

Note 19 – Subsequent Events

The Association has evaluated subsequent events and has determined there are none requiring disclosure through March 13, 2012, which is the date the financial statements were issued.