

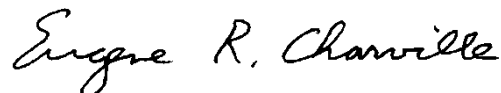
THIRD QUARTER 2011

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CERTIFICATION

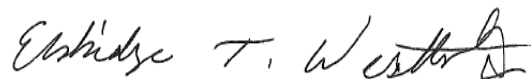
The undersigned certify that we have reviewed the September 30, 2011 quarterly report of AgCarolina Financial, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that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



Eugene R. Charville
President & CEO



David W. Corum
Executive Vice President & CFO



Eldridge T. Westbrook
Chairman of the Board

November 7, 2011

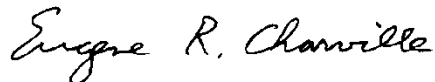
Report on Internal Control Over Financial Reporting

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

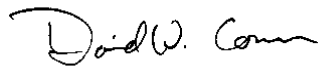
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions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

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

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



Eugene R. Charville
President & CEO



David W. Corum
Executive Vice President & CFO

November 7, 2011

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgCarolina Financial (Association) for the nine months ended September 30, 2011. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2010 annual report of the Association.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. Predominant commodities in the portfolio are tobacco, cotton, and forestry, which constitute \$479,267, or 50 percent, of the loan portfolio as of September 30, 2011. Other major farm commodities include hogs, poultry, landlords, soybeans, corn, and farm services. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on a given commodity.

The net loan volume of the Association as of September 30, 2011, was \$936,612, an increase of \$91,035 or 10.77 percent as compared to \$845,577 at December 31, 2010. Net loans accounted for 90.34 percent of total assets at September 30, 2011 as compared to 88.10 percent of total assets at December 31, 2010. The increase in net loan volume during the reporting period is primarily attributed to seasonal lending. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak in August and declines in the fall and winter months as farm commodities are marketed and proceeds are applied to the operating loans. However, a significant portion of the increase in net loan volume is due to new loan growth. When compared to net loan volume as of September 30, 2010 for a year-to-year comparison, net loan volume as of September 30, 2011 has grown by 5.74 percent.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans decreased from \$35,463 at December 31, 2010 to \$33,041 at September 30, 2011, for a decrease of 6.83 percent. The decrease is due primarily to charge offs taken during the third quarter of 2011. Association management maintains an allowance for loan

losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. During the quarter the Association increased the allowance for loan losses by \$770 through a provision for loan losses. The allowance for loan losses at September 30, 2011 was \$12,657 as compared to \$11,584 at December 31, 2010 and was considered by management to be adequate to cover possible losses. The ratio of the allowance for loan losses to loans at September 30, 2011 was 1.33 percent.

Other investments consists of tobacco buyout Successor-in-Interest Contracts (SIIC) which come under the FCA's Mission Related Investments. Under the SIIC, the tobacco quota holders and producers may assign their rights to receive tobacco buyout contract payments to a third party. The third party, or successor, purchases the entire contract and all related rights and obligations associated with the contract. As of September 30, 2011 the Association held tobacco buyout SIIC of \$44,730, a decrease of \$12,773 or 22.21%, as compared to \$57,503 as of December 31, 2010. The decrease is due to the receipt of the scheduled annual payment from the government.

Other property owned was \$2,929 as of September 30, 2011, an increase of \$1,766, or 151.85 percent, from the balance of \$1,163 as of December 31, 2010. The increase in other property owned is due to the acquisition of several properties through the loan foreclosure process. The Association is actively marketing the properties for resale.

RESULTS OF OPERATIONS

For the three months ended September 30, 2011

Net income for the three months ended September 30, 2011 totaled \$3,896, a decrease of \$727, or 15.73 percent, as compared to the same period of 2010. The primary reason for the decrease in net income is due to \$879 in losses on other property owned. At September 30, 2011, total interest income increased by \$210 compared to September 30, 2010. The increase in interest income is due primarily to increased loan volume as compared to the same period in 2010.

Interest income from nonaccrual loans was \$249 for the three months ended September 30, 2011, an increase of \$108 from the same period of 2010. Interest expense decreased \$320 for the three months ended September 30, 2011, as compared to the comparable period of 2010. The decrease in interest

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

Noninterest income for the three months ended September 30, 2011 totaled \$1,824 as compared to \$2,784 for the same period of 2010, a decrease of \$960. The decrease is primarily due to other property owned losses during 2011 of \$879.

Noninterest expense for the three months ended September 30, 2011 was \$3,954, an increase of \$279 as compared to the same period of 2010. The reason for the increase is due primarily to an increase in salaries and employee benefits and other operating expenses. Salaries and employee benefits totaled \$2,833 for the three months ended September 30, 2011, for an increase of \$110, or 4.04 percent, as compared to the same period of 2010. The increase in salaries and employee benefits is primarily due to an increase in employee staffing.

For the nine months ended September 30, 2011

Net income for the nine months ended September 30, 2011 totaled \$9,825, a decrease of \$4,375, or 30.81 percent, as compared to the same period of 2010. The primary reasons for the decrease in net income is due to an increase in the provision for loan losses of \$2,734 over the comparable period from last year, \$1,091 in refunds from the Farm Credit System Insurance Corporation (FCSIC) that were received in 2010 while no insurance refunds have been received during 2011, and \$936 in losses on other property owned, an increase of \$858 over the same period in 2010. At September 30, 2011, total interest income decreased by \$62 as compared to the same period in 2010. The decrease in interest income is due to a decline in interest rates as compared to the same period in 2010.

Interest income from nonaccrual loans was \$483 as of September 30, 2011, an increase of \$195 from the same period of 2010. Interest expense decreased \$1,720 for the first nine months in 2011, as compared to the comparable period of 2010. The decrease in interest expense is attributed to a decline in funding rates and from the use of Association earnings to fund loans.

Noninterest income for the nine months ended September 30, 2011 totaled \$7,678 as compared to \$9,920 for the same period of 2010, a decrease of \$2,242. The decrease is primarily due to \$936 in losses on other property owned in 2011, and the 2010 Insurance Fund refund of \$1,091.

Noninterest expense for the nine months ended September 30, 2011 was \$12,021, an increase of \$1,059 as compared to the same period of 2010. Salaries and employee benefits totaled \$8,647 for the nine months ended September 30, 2011, for an increase of \$630 or 7.86 percent, as compared to the same period of 2010. The increase is primarily due to an increase in Association employees.

LIQUIDITY AND FUNDING SOURCES

Liquidity

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

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2011 was \$841,032 as compared to \$769,254 at December 31, 2010. The 9.33 percent increase during the period is primarily attributed to loan seasonality.

The Association has no lines of credit outstanding with third parties as of September 30, 2011.

CAPITAL RESOURCES

Total members' equity at September 30, 2011, increased 7.45 percent to \$182,114 from the December 31, 2010, total of \$169,491. The increase is attributed to the increase in retained earnings and preferred stock. Preferred stock was \$27,579 as of September 30, 2011, as compared to \$24,558 on December 31, 2010, for an increase of 12.30 percent.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of September 30, 2011, the Association's total surplus ratio and core surplus ratio were both 14.08 percent, and the permanent capital ratio was 17.29 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

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

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

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

AgCarolina Financial, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2011 <i>(unaudited)</i>	December 31, 2010 <i>(audited)</i>
Assets		
Cash	\$ 722	\$ 1,514
Loans	949,269	857,161
Less: allowance for loan losses	12,657	11,584
Net loans	936,612	845,577
Other investments	44,730	57,503
Accrued interest receivable	16,430	13,622
Investments in other Farm Credit institutions	13,707	13,713
Premises and equipment, net	8,642	8,809
Other property owned	2,929	1,163
Due from AgFirst Farm Credit Bank	4,689	7,607
Other assets	8,327	10,306
Total assets	\$ 1,036,788	\$ 959,814
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 841,032	\$ 769,254
Accrued interest payable	1,770	1,862
Patronage refund payable	167	6,526
Other liabilities	11,705	12,681
Total liabilities	854,674	790,323
Commitments and contingencies		
Members' Equity		
Preferred stock	27,579	24,558
Member stock and participation certificates	3,292	3,180
Retained earnings		
Allocated	79,414	79,014
Unallocated	71,829	62,739
Total members' equity	182,114	169,491
Total liabilities and members' equity	\$ 1,036,788	\$ 959,814

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

AgCarolina Financial, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
Interest Income				
Loans	\$ 11,798	\$ 11,417	\$ 33,134	\$ 32,653
Other investments	554	725	1,622	2,165
Total interest income	12,352	12,142	34,756	34,818
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	5,556	5,876	16,104	17,824
Net interest income	6,796	6,266	18,652	16,994
Provision for loan losses	770	750	4,484	1,750
Net interest income after provision for loan losses	6,026	5,516	14,168	15,244
Noninterest Income				
Loan fees	570	602	2,571	2,539
Fees for financially related services	454	457	763	1,075
Equity in earnings of other Farm Credit institutions	1,717	1,635	5,161	5,065
Gains (losses) on other property owned, net	(879)	(9)	(936)	(78)
Gains (losses) on sales of premises and equipment, net	13	13	26	18
Insurance Fund refunds	—	—	—	1,091
Other noninterest income (expense)	(51)	86	93	210
Total noninterest income	1,824	2,784	7,678	9,920
Noninterest Expense				
Salaries and employee benefits	2,833	2,723	8,647	8,017
Occupancy and equipment	292	270	861	783
Insurance Fund premium	128	101	353	280
Other operating expenses	701	581	2,160	1,882
Total noninterest expense	3,954	3,675	12,021	10,962
Income before income taxes	3,896	4,625	9,825	14,202
Provision for income taxes	—	2	—	2
Net income	\$ 3,896	\$ 4,623	\$ 9,825	\$ 14,200

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

AgCarolina Financial, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Preferred Stock	Members Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2009	\$ 15,260	\$ 3,080	\$ 69,536	\$ 60,654	\$ 148,530
Net income				14,200	14,200
Preferred stock issued/(retired), net	11,909				11,909
Capital stock/participation certificates issued/(retired), net		(283)			(283)
Dividends declared/paid		346		(346)	—
Patronage distribution adjustment			(146)	257	111
Balance at September 30, 2010	\$ 27,169	\$ 3,143	\$ 69,390	\$ 74,765	\$ 174,467
Balance at December 31, 2010	\$ 24,558	\$ 3,180	\$ 79,014	\$ 62,739	\$ 169,491
Net income				9,825	9,825
Preferred stock issued/(retired), net	3,021				3,021
Capital stock/participation certificates issued/(retired), net		(223)			(223)
Dividends declared/paid		335		(335)	—
Patronage distribution adjustment			400	(400)	—
Balance at September 30, 2011	\$ 27,579	\$ 3,292	\$ 79,414	\$ 71,829	\$ 182,114

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

Recently Issued Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 – LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	September 30, 2011	December 31, 2010
Real estate mortgage	\$ 376,408	\$ 373,102
Production and intermediate-term	529,406	434,883
Agribusiness		
Loans to cooperatives	100	454
Processing and marketing	14,624	21,002
Farm-related business	6,645	7,675
Total agribusiness	21,369	29,131
Communication	1,382	1,322
Rural residential real estate	20,704	18,723
Total Loans	\$ 949,269	\$ 857,161

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

	September 30, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 3,144	\$ 23,634	\$ 2,035	\$ -	\$ -	\$ -	\$ 5,179	\$ 23,634
Production and intermediate-term	21,656	68,347	449	8,430	14,633	-	36,738	76,777
Agribusiness								
Loans to cooperatives	-	-	-	-	-	-	-	-
Processing and marketing	13,504	-	1,121	-	-	-	14,625	-
Farm-related business	175	1,750	-	-	-	-	175	1,750
Total agribusiness	13,679	1,750	1,121	-	-	-	14,800	1,750
Communication	1,382	-	-	-	-	-	1,382	-
Total	\$ 39,861	\$ 93,731	\$ 3,605	\$ 8,430	\$ 14,633	\$ -	\$ 58,099	\$ 102,161

	December 31, 2010							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 3,405	\$ 20,419	\$ 2,042	\$ -	\$ -	\$ -	\$ 5,447	\$ 20,419
Production and intermediate-term	15,434	31,490	486	11,582	12,500	-	28,420	43,072
Agribusiness								
Loans to cooperatives	454	-	-	-	-	-	454	-
Processing and marketing	19,648	-	1,281	-	-	-	20,929	-
Farm-related business	-	2,529	-	-	-	-	-	2,529
Total agribusiness	20,102	2,529	1,281	-	-	-	21,383	2,529
Communication	1,323	-	-	-	-	-	1,323	-
Total	\$ 40,264	\$ 54,438	\$ 3,809	\$ 11,582	\$ 12,500	\$ -	\$ 56,573	\$ 66,020

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at September 30, 2011 and indicates that approximately 28.33 percent of loans had maturities of less than one year:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 43,397	\$ 133,258	\$ 199,753	\$ 376,408
Production and intermediate-term	208,745	200,823	119,838	529,406
Agribusiness				
Loans to cooperatives	-	100	-	100
Processing and marketing	12,938	1,494	192	14,624
Farm-related business	1,987	2,549	2,109	6,645
Total agribusiness	14,925	4,143	2,301	21,369
Communication	1,376	6	-	1,382
Rural residential real estate	450	2,920	17,334	20,704
Total Loans	\$ 268,893	\$ 341,150	\$ 339,226	\$ 949,269

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010		September 30, 2011	December 31, 2010
Real estate mortgage:			Total agribusiness:		
Acceptable	84.19%	85.58%	Acceptable	80.66%	83.91%
OAEM	8.80	7.22	OAEM	16.37	12.46
Substandard/doubtful/loss	7.01	7.20	Substandard/doubtful/loss	2.97	3.63
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Communication:		
Acceptable	90.26%	88.28%	Acceptable	100.00%	100.00%
OAEM	5.74	8.29	OAEM	-	-
Substandard/doubtful/loss	4.00	3.43	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	-%
Agribusiness:			Rural residential real estate:		
Loans to cooperatives:			Acceptable	92.63%	91.24%
Acceptable	100.00%	100.00%	OAEM	1.71	6.23
OAEM	-	-	Substandard/doubtful/loss	5.66	2.53
Substandard/doubtful/loss	-	-		100.00%	100.00%
	100.00%	100.00%	Total Loans:		
Processing and marketing:			Acceptable	87.71%	87.04%
Acceptable	80.75%	84.11%	OAEM	7.09	7.91
OAEM	14.90	10.85	Substandard/doubtful/loss	5.20	5.05
Substandard/doubtful/loss	4.35	5.04		100.00%	100.00%
	100.00%	100.00%			
Farm-related business:					
Acceptable	80.16%	82.44%			
OAEM	19.84	17.56			
Substandard/doubtful/loss	-	-			
	100.00%	100.00%			

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

	September 30, 2011					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 8,127	\$ 4,859	\$ 12,986	\$ 369,605	\$ 382,591	\$ 18
Production and intermediate-term	2,894	6,656	9,550	529,877	539,427	43
Agribusiness						
Loans to cooperatives	-	-	-	102	102	-
Processing and marketing	-	-	-	14,653	14,653	-
Farm-related business	-	-	-	6,697	6,697	-
Total agribusiness	-	-	-	21,452	21,452	-
Communication	-	-	-	1,383	1,383	-
Rural residential real estate	279	346	625	20,221	20,846	-
Total	\$ 11,300	\$ 11,861	\$ 23,161	\$ 942,538	\$ 965,699	\$ 61

	December 31, 2010					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 6,611	\$ 4,984	\$ 11,595	\$ 366,792	\$ 378,387	\$ -
Production and intermediate-term	8,220	4,314	12,534	430,439	442,973	-
Agribusiness						
Loans to cooperatives	-	-	-	455	455	-
Processing and marketing	-	-	-	21,050	21,050	-
Farm-related business	-	-	-	7,735	7,735	-
Total agribusiness	-	-	-	29,240	29,240	-
Communication	-	-	-	1,323	1,323	-
Rural residential real estate	824	-	824	18,036	18,860	-
Total	\$ 15,655	\$ 9,298	\$ 24,953	\$ 845,830	\$ 870,783	\$ -

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

Nonperforming assets (including related accrued interest) and related credit quality statistics at September 30, 2011 and December 31, 2010, are as follows:

	September 30, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	\$ 18,411	\$ 22,498
Production and intermediate-term Agribusiness	14,237	12,742
Loans to cooperatives	-	-
Processing and marketing	-	-
Total agribusiness	-	-
Rural residential real estate	393	223
Total nonaccrual loans	<u>\$ 33,041</u>	<u>\$ 35,463</u>
Accruing restructured loans:		
Real estate mortgage	\$ 246	\$ -
Production and intermediate-term Agribusiness	346	-
Loans to cooperatives	-	-
Processing and marketing	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Total accruing restructured loans	<u>\$ 592</u>	<u>\$ -</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 18	\$ -
Production and intermediate-term Agribusiness	43	-
Loans to cooperatives	-	-
Processing and marketing	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Total accruing loans 90 days or more past due	<u>\$ 61</u>	<u>\$ -</u>
Total nonperforming loans	\$ 33,694	\$ 35,463
Other property owned	2,929	1,163
Nonperforming assets	<u>\$ 36,623</u>	<u>\$ 36,626</u>
Nonaccrual loans as a percentage of total loans	3.48%	4.14%
Nonperforming assets as a percentage of total loans and other property owned	3.85%	4.27%
Nonperforming assets as a percentage of capital	20.11%	21.61%

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

	September 30, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 19,167	\$ 22,185
Past due	13,874	13,278
Total impaired nonaccrual loans	<u>33,041</u>	<u>35,463</u>
Impaired accrual loans:		
Restructured	592	-
90 days or more past due	61	-
Total impaired accrual loans	<u>653</u>	<u>-</u>
Total impaired loans	<u>\$ 33,694</u>	<u>\$ 35,463</u>

The following tables present additional information concerning impaired loans and related allowance by loan type for September 30, 2011 and December 31, 2010. Unpaid principal balance represents the contractual principal balance of the loan.

	September 30, 2011			Quarter Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	\$ 10,511	\$ 10,957	\$ 3,038	\$ 11,091	\$ 78	\$ 11,055	\$ 151
Production and intermediate-term	6,462	7,597	1,399	6,819	48	6,798	93
Rural residential real estate	188	188	-	198	2	197	2
Total	<u>\$ 17,161</u>	<u>\$ 18,742</u>	<u>\$ 4,437</u>	<u>\$ 18,108</u>	<u>\$ 128</u>	<u>\$ 18,050</u>	<u>\$ 246</u>
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 8,164	\$ 10,294	\$ -	\$ 8,615	\$ 61	\$ 8,588	\$ 117
Production and intermediate-term	8,164	11,334	-	8,615	61	8,586	117
Rural residential real estate	205	337	-	216	1	216	4
Total	<u>\$ 16,533</u>	<u>\$ 21,965</u>	<u>\$ -</u>	<u>\$ 17,446</u>	<u>\$ 123</u>	<u>\$ 17,390</u>	<u>\$ 238</u>
Total impaired loans:							
Real estate mortgage	\$ 18,675	\$ 21,251	\$ 3,038	\$ 19,706	\$ 139	\$ 19,643	\$ 268
Production and intermediate-term	14,626	18,931	1,399	15,434	109	15,384	210
Rural residential real estate	393	525	-	414	3	413	6
Total	<u>\$ 33,694</u>	<u>\$ 40,707</u>	<u>\$ 4,437</u>	<u>\$ 35,554</u>	<u>\$ 251</u>	<u>\$ 35,440</u>	<u>\$ 484</u>

	December 31, 2010			Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 8,049	\$ 8,261	\$ 2,504	\$ 6,711	\$ 84
Production and intermediate-term	2,308	2,439	819	1,925	24
Rural residential real estate	-	-	-	-	-
Total	<u>\$ 10,357</u>	<u>\$ 10,700</u>	<u>\$ 3,323</u>	<u>\$ 8,636</u>	<u>\$ 108</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 14,449	\$ 15,412	\$ -	\$ 12,048	\$ 152
Production and intermediate-term	10,434	13,091	-	8,700	109
Rural residential real estate	223	318	-	186	2
Total	<u>\$ 25,106</u>	<u>\$ 28,821</u>	<u>\$ -</u>	<u>\$ 20,934</u>	<u>\$ 263</u>
Total impaired loans:					
Real estate mortgage	\$ 22,498	\$ 23,673	\$ 2,504	\$ 18,759	\$ 236
Production and intermediate-term	12,742	15,530	819	10,625	133
Rural residential real estate	223	318	-	186	2
Total	<u>\$ 35,463</u>	<u>\$ 39,521</u>	<u>\$ 3,323</u>	<u>\$ 29,570</u>	<u>\$ 371</u>

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

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

September 30, 2011							
	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Communication	Rural Residential Real Estate	Total	
Allowance for credit losses:							
Balance at December 31, 2010	\$ 6,094	\$ 5,021	\$ 277	\$ 13	\$ 179	\$ 11,584	
Charge-offs	(1,366)	(2,081)	-	-	(9)	(3,456)	
Recoveries	22	19	-	-	4	45	
Provision for loan losses	1,536	3,131	(139)	(4)	(40)	4,484	
Balance at September 30, 2011	<u>\$ 6,286</u>	<u>\$ 6,090</u>	<u>\$ 138</u>	<u>\$ 9</u>	<u>\$ 134</u>	<u>\$ 12,657</u>	

September 30, 2011 allowance ending balance:

Loans individually evaluated for impairment	\$ 3,038	\$ 1,399	\$ -	\$ -	\$ -	\$ 4,437	
Loans collectively evaluated for impairment	<u>\$ 3,248</u>	<u>\$ 4,691</u>	<u>\$ 138</u>	<u>\$ 9</u>	<u>\$ 134</u>	<u>\$ 8,220</u>	

Recorded investment in loans outstanding:

Ending Balance at September 30, 2011	<u>\$ 382,591</u>	<u>\$ 539,427</u>	<u>\$ 21,452</u>	<u>\$ 1,383</u>	<u>\$ 20,846</u>	<u>\$ 965,699</u>	
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September 30, 2011 recorded investment ending balance:

Loans individually evaluated for impairment	\$ 18,411	\$ 14,237	\$ -	\$ -	\$ 393	\$ 33,041	
Loans collectively evaluated for impairment	<u>\$ 364,180</u>	<u>\$ 525,190</u>	<u>\$ 21,452</u>	<u>\$ 1,383</u>	<u>\$ 20,453</u>	<u>\$ 932,658</u>	

December 31, 2010							
	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Communication	Rural Residential Real Estate	Total	
Allowance for credit losses:							
Balance at December 31, 2009	\$ 4,292	\$ 4,793	\$ 408	\$ 36	\$ 153	\$ 9,682	
Charge-offs	(412)	(1,147)	(72)	-	(99)	(1,730)	
Recoveries	10	118	1	-	3	132	
Provision for loan losses	2,204	1,257	(60)	(23)	122	3,500	
Balance at December 31, 2010	<u>\$ 6,094</u>	<u>\$ 5,021</u>	<u>\$ 277</u>	<u>\$ 13</u>	<u>\$ 179</u>	<u>\$ 11,584</u>	

December 31, 2010 allowance ending balance:

Loans individually evaluated for impairment	\$ 2,504	\$ 819	\$ -	\$ -	\$ -	\$ 3,323	
Loans collectively evaluated for impairment	<u>\$ 3,590</u>	<u>\$ 4,202</u>	<u>\$ 277</u>	<u>\$ 13</u>	<u>\$ 179</u>	<u>\$ 8,261</u>	

Recorded investment in loans outstanding:

Ending Balance at December 31, 2010	<u>\$ 378,387</u>	<u>\$ 442,973</u>	<u>\$ 29,240</u>	<u>\$ 1,323</u>	<u>\$ 18,860</u>	<u>\$ 870,783</u>	
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December 31, 2010 recorded investment ending balance:

Loans individually evaluated for impairment	\$ 22,498	\$ 12,742	\$ -	\$ -	\$ 223	\$ 35,463	
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NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the nine months ended September 30,	
	2011	2010
Pension	\$ 1,986	\$ 1,867
401(k)	270	249
Other postretirement benefits	376	324
Total	<u>\$ 2,632</u>	<u>\$ 2,440</u>

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

	Actual YTD Through 9/30/11	Projected Contributions For Remainder of 2011	Projected Total Contributions 2011
Pension	\$ –	\$ 2,158	\$ 2,158
Other postretirement benefits	263	139	402
Total	<u>\$ 263</u>	<u>\$ 2,297</u>	<u>\$ 2,560</u>

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

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

NOTE 4 – FAIR VALUE MEASUREMENT

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

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

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market

participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

Level 1

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

Level 2

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

Level 3

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

Level 3 assets at September 30, 2011 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	September 30, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in mutual funds	\$ 2,420	\$ -	\$ -	\$ 2,420
Total Assets	\$ 2,420	\$ -	\$ -	\$ 2,420

Liabilities:				
Deferred compensation liabilities	\$ -	\$ 2,072	\$ -	\$ 2,072
Standby letters of credit	-	-	32	32
Total Liabilities	\$ -	\$ -	\$ 32	\$ 2,104

	December 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in mutual funds	\$ 2,994	\$ -	\$ -	\$ 2,994
Total Assets	\$ 2,994	\$ -	\$ -	\$ 2,994

Liabilities:				
Deferred compensation liabilities	\$ -	\$ 2,010	\$ -	\$ 2,010
Standby letters of credit	-	-	54	54
Total Liabilities	\$ -	\$ 2,010	\$ 54	\$ 2,064

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

	Standby Letters Of Credit
Balance at January 1, 2011	\$ 54
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases	-
Sales	-
Issuances	-
Settlements	(22)
Transfers in and/or out of level 3	-
Balance at September 30, 2011	\$ 32

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 88
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(16)
Transfers in and/or out of level 3	-
Balance at September 30, 2010	\$ 72

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

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

	September 30, 2011				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 12,724	\$ 12,724	\$ (4,526)
Other property owned	\$ -	\$ -	\$ 2,929	\$ 2,929	\$ (924)

	December 31, 2010				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 7,034	\$ 7,034	\$ (2,704)
Other property owned	\$ -	\$ -	\$ 1,181	\$ 1,181	\$ (551)

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	\$ 722	\$ 722	\$ 1,514	\$ 1,514
Loans, net of allowance	\$ 953,042	\$ 955,060	\$ 859,199	\$ 852,416
Tobacco Buyout SIIC	\$ 44,730	\$ 46,859	\$ 57,503	\$ 60,124
Assets held in mutual funds	\$ 2,420	\$ 2,420	\$ 2,994	\$ 2,994
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 842,802	\$ 853,782	\$ 771,116	\$ 780,634
Deferred compensation liability	\$ 2,072	\$ 2,072	\$ 2,010	\$ 2,010

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.

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 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. As the discount rates are based on the Bank’s loan rates, as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

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 less specific reserves.

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

- C. **Investment in AgFirst Farm Credit Bank:** Estimating the fair value of the Association’s investment in the Bank is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 3.85 percent of the issued stock of the Bank as of September 30, 2011 net of any reciprocal investment. As of that date, the Bank’s assets totaled \$30.3 billion and shareholders’ equity totaled \$2.2 billion. The Bank’s earnings were \$295 million during the first nine months of 2011.

In addition, the Association has an investment of \$6 related to other Farm Credit institutions.

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

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

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

NOTE 6 – SUBSEQUENT EVENTS

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