

2011 ANNUAL REPORT

Lending support to rural America™



FARM CREDIT OF CENTRAL FLORIDA, ACA

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D. Scott Fontenot	Executive Vice President & Treasurer
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Jeffrey T. Phillips.....	Senior Vice President
Regina W. Thomas.....	Senior Vice President
Johan S. Dam	Senior Vice President
Michael R. “Ron” O’Connor.....	Senior Vice President
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Ronald R. Wetherington	Director

Message from the President & Chief Executive Officer

The Association continued to face challenges during 2011. The “Great Recession” that began in late 2007, has resulted in economic stress throughout most sectors, especially the central Florida housing and real estate markets. The region has experienced unemployment not seen in more than 35 years. While there has been some recent improvement, most of the Association’s territory experienced unemployment rates at or near 12% the past couple of years.

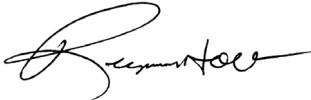
The region’s economic dependence on the housing and real estate markets has been obvious as its significant decline adversely affected many members’ farm and nonfarm incomes along with real estate values. This has been especially apparent among nursery producers and members dependent on nonfarm income to help supplement their agricultural income. The steep decline of home sales and home values, which began in 2007 and continued thru 2011, has adversely affected land prices including most agricultural land values. In general, land values are 60% or more below their 2007 peak levels.

These recessionary effects have significantly impacted the Association’s credit quality and earnings. Management continued to proactively identify problems and took the proactive and fiscally responsible approach to increase the Association’s reserves to account for potential losses. During 2011, provisions for loan losses and net losses on other properties owned were \$10.2 million and \$3.0 million, respectively, resulting in a net loss of \$5.6 million. The Association will not declare a 2011 patronage distribution. The Association entered these difficult times with a very strong capital position and notwithstanding the net loss from operations it remains strong with a permanent capital ratio of 18.8%. To ensure the Association’s continued strength it is unlikely the 2002 series of allocated surplus will be revolved during 2012.

While we have noted recent signs of improvement in credit quality and delinquencies, it is obvious 2012 will continue to present challenges and opportunities. Many growers will continue to face reduced cash receipts as a result of decreased demand, which will likely be coupled with increased input costs from higher energy costs and higher costs associated with protection from evasive disease and pests.

I am confident your Association is positioned to meet the challenges of the future. The diversity, expertise, and experience of your Board of Directors provide valuable insight into the direction and policy making of your Association to make sure your cooperative remains strong and viable. You can be assured the Board is focused on your interests and understands your challenges. The Board has approved a business plan and budget that will allow our very capable staff to continue to provide the level of products and services you have come to expect while improving efficiency and reducing costs. The Board continues to direct the staff to assist members facing adversity with all due consideration and reasonable avenues to work through difficult times.

The Association, its Board of Directors and staff are focused on meeting the objective and mission of the Farm Credit System for its members. We believe in cooperative principles and strive to see that they are always applied to our business practices. Agriculture and rural America are our business. Our Association's Mission is *"To be the lender of Choice to agricultural and rural communities of Central Florida."* We do not take that lightly in good times or bad. We are still financing creditworthy farmers, ranchers, and rural home owners, and will continue to do so as we have for over 90 years. When you need credit, we want your first thought to be **"FARM CREDIT."**



Reginald T. Holt
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 Farm Credit of Central Florida, 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, that the financial records are reliable as the basis for the preparation of all financial statements, and that 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 Farm Credit of Central Florida, 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.



Al Bellotto
Chairman of the Board



Reginald T. Holt
Chief Executive Officer



D. Scott Fontenot
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 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 December 31, 2011.



Reginald T. Holt
Chief Executive Officer



D. Scott Fontenot
Chief Financial Officer

March 13, 2012

Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	December 31,				
	2011	2010	2009	2008	2007
Balance Sheet Data					
Cash	\$ 512	\$ 13	\$ 61	\$ 36	\$ 72
Investment securities	47,285	45,476	49,648	50,376	30,247
Loans	342,346	376,001	370,775	422,431	369,663
Less: allowance for loan losses	10,158	4,426	5,959	5,243	1,473
Net loans	332,188	371,575	364,816	417,188	368,190
Investments in other Farm Credit institutions	11,665	13,348	16,225	14,043	15,114
Other property owned	3,394	6,806	2,026	504	1,061
Other assets	11,368	14,475	13,008	14,801	15,355
Total assets	\$ 406,412	\$ 451,693	\$ 445,784	\$ 496,948	\$ 430,039
Notes payable to AgFirst Farm Credit Bank*	\$ 329,555	\$ 369,260	\$ 363,528	\$ 412,134	\$ 343,677
Accrued interest payable and other liabilities with maturities of less than one year	5,055	4,949	5,462	8,475	12,609
Total liabilities	334,610	374,209	368,990	420,609	356,286
Protected borrower stock	6	19	33	39	64
Capital stock and participation certificates	1,020	1,110	1,213	1,259	1,267
Retained earnings					
Allocated	33,183	33,183	33,183	34,758	33,511
Unallocated	37,586	43,153	42,338	40,252	39,214
Accumulated other comprehensive income (loss)	7	19	27	31	(303)
Total members' equity	71,802	77,484	76,794	76,339	73,753
Total liabilities and members' equity	\$ 406,412	\$ 451,693	\$ 445,784	\$ 496,948	\$ 430,039
Statement of Operations Data					
Net interest income	\$ 9,955	\$ 9,019	\$ 9,516	\$ 10,503	\$ 10,536
Provision for (reversal of allowance for) loan losses	10,202	8,817	7,415	3,975	(120)
Noninterest income (expense), net	(5,320)	695	(942)	428	1,734
Net income (loss)	\$ (5,567)	\$ 897	\$ 1,159	\$ 6,956	\$ 12,390
Key Financial Ratios					
Rate of return on average:					
Total assets	(1.34)%	0.21%	0.26%	1.57%	3.04%
Total members' equity	(7.26)%	1.15%	1.50%	8.98%	16.97%
Net interest income as a percentage of average earning assets	2.68%	2.38%	2.35%	2.54%	2.78%
Net (chargeoffs) recoveries to average loans	(1.284)%	(2.872)%	(1.790)%	(0.053)%	(0.013)%
Total members' equity to total assets	17.67%	17.15%	17.23%	15.36%	17.15%
Debt to members' equity (:1)	4.66	4.83	4.80	5.51	4.83
Allowance for loan losses to loans	2.97%	1.18%	1.61%	1.24%	0.40%
Permanent capital ratio	18.84%	16.28%	15.89%	15.14%	15.49%
Total surplus ratio	18.16%	15.65%	15.23%	14.54%	14.49%
Core surplus ratio	15.72%	13.48%	13.05%	11.70%	11.67%
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ —	\$ —	\$ —	\$ 2,619	\$ 4,666
Qualified allocated retained earnings	—	—	—	2,690	—
Nonqualified allocated retained earnings	—	—	—	899	6,998

* 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 Farm Credit of Central Florida, 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 central Florida. 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, Post Office 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.FarmCreditCFL.com, or by calling 1-800-533-2773, or writing D. Scott Fontenot, Chief Financial Officer, Farm Credit of Central Florida, ACA, Post Office Box 8009, Lakeland, FL 33802-8009. 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 a 14 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 2009 was selected by reference to analysis and yield curves of the plans' actuary and industry norms.

REGIONAL ECONOMICS

Economic conditions in Florida continue to gradually improve. Although many real estate markets in the state remain weak, Florida's overall economy is showing signs of renewed vigor, capitalizing on its status as America's pre-eminent travel destination as well as the commercial crossroads of the Western Hemisphere. IHS Global Insight estimates that Florida's real GDP grew by 1.5% in Q3 2011, and is on track to expand by 2.2% in the final three months of this year. Next year, Florida's GDP is expected to grow by 1.7%, followed by 2.7% in 2013.

Florida's labor market is also showing signs of strengthening. In the twelve months through October 2011, the state gained a net total of 93,900 non-farm jobs, an increase of 1.3% and slightly above the 1.2% growth rate in total U.S. employment. In the last month alone, Florida has added nearly 10,000 new jobs, reflective of strengthening aggregate demand and improving business confidence. More than a third of the new jobs created in Florida over the past year were in the state's vast tourism/hospitality industry, plus more than a quarter each in the healthcare and professional services industries. There have also been more modest job gains in the retail trade, transportation, manufacturing, and education sectors, while employment in construction, government, information, and financial services all declined. At 10.3%, Florida's statewide unemployment rate remains above the U.S. rate, but is lower than its 11.8% rate a year ago.

Florida's exposure to the Eurozone crisis has so far been relatively limited, given the state's strong focus on Latin American markets. Still, Europe is an important market for some categories of Florida's exports (e.g. medical devices, aerospace products), a key visitor market, as well as the top source of

inward foreign direct investment, accounting for nearly half of total FDI stock and 60% of total employment by foreign firms in the state. Many large European banks have a Florida presence and are important providers of financing for trading activity, including with Latin America. The potential adverse effects of a Eurozone meltdown on Florida could therefore be substantial.

As the broadest measure of economic output, Gross Domestic Product (GDP) denotes the value of all goods and services produced by an economy in a given year. The most recent official GDP figures at the state level, published by the Bureau of Economic Analysis (BEA) of the U.S. Commerce Department, are for calendar year 2010. According to these data, in 2010 Florida remained the fourth largest economy among all U.S. states, with current-dollar GDP exceeding \$747.7 billion. In real terms, (i.e. adjusted for inflation) Florida's GDP grew by 1.4% in 2010, but fell by 1.0% over the longer five-year period from 2005 to 2010. This compares to U.S. GDP growth of 3.0% and 3.7%, respectively, over the same time periods. Recent data revisions reveal that the Great Recession in the U.S. was even steeper than previously estimated – only during the third quarter of this year did the nation's real GDP revert to its pre-recession peak last reached in Q4 2007. Put another way, the U.S. economy today is the same size it was four years ago, despite adding millions of new residents in the meantime.

More recent (though unofficial) quarterly estimates of Florida's Gross Domestic Product are available from IHS Global Insight (www.globalinsight.com), a leading economic consulting firm. IHS Global Insight estimates that Florida's nominal GDP reached \$769.8 billion in Q3 2011. This represents real GDP growth at an annualized rate of 1.5% from the previous quarter, and is 0.6% higher than in Q3 2010. Meanwhile, the overall U.S. economy grew at a quicker pace over the quarter (2.0%) as well as over the year (1.5%). Most of Florida's comparative lag relative to the rest of the country is attributable to a growth "soft patch" in late 2010 and early 2011, according to the numbers generated by IHS Global Insight's macroeconomic model.

Housing

Florida's housing spell continues. Foreclosures continue to be a problem while nearly half of Floridians are underwater on their mortgages. For these homeowners, the house is no longer a net asset, but a net liability. Mortgage rates have increased from historical lows, but unfortunately credit is still constrained. Low rates are not spurring high levels of activity in the housing sector. Sales have continued to substantially decline from their first time home buyer tax credit peaks. Refinancing to take advantage of these ultra-low mortgage rates is nearly impossible for those who have seen their home values plummet and now find themselves underwater in their mortgage. High and persistent unemployment, flat job growth, and slow population growth, combined with these tight credit conditions, will prolong the recovery period in the housing sector. These fundamental weaknesses in the underpinnings of the housing demand are prolonging the absorption of an inventory that is further swelled by foreclosure.

Construction Sector

Florida's real estate and construction industries have been particularly hard hit by the recession. After reaching peak levels in mid 2006, employment in Florida's construction industry has fallen by nearly 266,000 jobs – roughly a 39% decline. With downward revisions in state population growth projections and

remaining excesses in inventory, opportunities for diversification may include "Green" building and high skill construction (power plants, bridges, industrial facilities, etc.).

Leisure & Hospitality Sector

More than 84.2 million tourists visited Florida last year, resulting in \$65.2 billion in taxable sales revenue and employing more than 1 million Floridians. Florida's tourism industry accounts for more than one-fifth of the state's total sales tax revenue. The collective impacts of the economic downturn and the oil spill caused significant challenges to the tourism industry. In light of the recent business downturn, Florida is expected to reap benefits from the Tourism Promotion Act, which was passed by Congress in February 2010 and created a non-profit corporation to promote U.S. tourism overseas.

Manufacturing Sector

Florida manufacturers are a powerful economic engine for the state's economy. Many Florida manufacturing operations benefit from the presence of advanced research facilities at Florida's universities and colleges, military installations, and NASA. The industry cluster counts more than 17,000 manufacturers who employ nearly 324,000 workers across the state.

Health Care & Education Sector

Florida has a vibrant healthcare sector that encompasses one of the largest and most sophisticated health care systems in the country. Many of the 703,000 employees who work in healthcare in Florida are engaged in a broad range of research activities and clinical trials. Florida's hospitals specialize in clinical trials for diseases such as Alzheimer's, cancer, diabetes, heart disease and others. The health care and education sector of the Florida economy has been and will continue to be one of the bright spots for the state. Despite job losses in most major industries within the state this sector has managed to continue expanding. Continued population growth as well as the overall aging of the population continues to support growth in this sector. Positive job growth is projected to continue in this sector for the foreseeable future.

Agricultural Sectors

Agriculture, agribusiness, and food processing and manufacturing are still a significant economic driver to the local and state economy. These business segments provided significant jobs and revenues to the state and local economies.

The agricultural industry in the Central Florida region produces a wide variety of farm commodities with horticulture, citrus, and fruit and vegetables the largest market segments. None of the commodities produced in the region are included in any USDA government support programs and not materially impacted by U.S. farm bill legislation. Other significant factors that continue to affect the agricultural economy include the introduction of pest and plant diseases, weather-related risks, water-use regulations, environmental rules and regulations, and competition for agricultural lands. All Florida producers, particularly fruit and vegetable producers are concerned about foreign trade issues, primarily the Free Trade of the America's Agreement (FTAA) and World Trade Organization initiatives. State agencies continue to pursue the purchase of significant parcels of agricultural property for water resource protection and environmental protection purposes. Florida rural property owners are now facing new challenges as special interest groups and

government officials attempt to limit their future land use through growth management regulations.

The region served by the Association was spared any natural disaster in 2011. There were no material impacts by hurricanes and the region has enjoyed generally favorable weather conditions. The region continues to experience below average rainfall and water authorities are continuing to maintain restrictions.

The forecasted 2011/12 U.S. citrus production is at 143.5 million boxes, up 3 percent from last season. These flat supplies have caused an increase in 2011/12 season cash prices for round oranges. Some growers, however, are still receiving prices exceeding the cash market through multi-year contracts or fruit participation arrangements. All crop producers are facing higher input costs resulting primarily from increased prices for energy and fertilizer. Furthermore, citrus growers are dealing with the added cost of dealing with canker and greening diseases. A majority of the Association's citrus growers were able to significantly reduce leverage over the past several years because of strong fruit prices.

Strawberry production in the Central Florida region was up during the early harvesting months because of warm weather conditions, causing lower market prices. Lower temperatures were experienced during mid December along with the first freeze of the season. The lower temperatures have slowed production to more normal levels causing a bump in prices.

Cow-calf operators have enjoyed good prices and returns over the past two years, but are now faced with some price softening. Most of the Association's cow-calf operators have diversified income sources.

The floriculture and nursery product sectors continue to be a significant market for the Association, with production concentrated primarily in the Apopka area (including Orange, Lake and Volusia counties). Nursery producers in the Association's territory produce a variety of nursery products, including but not limited to woody ornamentals and trees, annual and perennial bedding and garden plants, and potted foliage and greens. Although sales growth in both the floriculture and nursery product sectors has slowed over the last decade, history has shown that the demand for each of these crops is driven by different market factors. The nursery industry segment which has been hardest hit by the downturned economy has been tree farms. The demand for trees has seen a substantial decline, due to the segment being heavily reliant on construction. The Association has seen many large tree growers go out of business over the last two to three years, causing prices to plummet as many operations have completely liquidated products. Overall, the floriculture and nursery industry is a very dynamic market sector. Growers in the Association's territory should continue to benefit from the unique growing conditions inherent to the region and the established marketing and transportation infrastructure that exists. If the industry grows at all during the next couple of years, the pace will be much slower than was seen in the 1980s and 1990s. Producers are likely to face significant pricing pressure. With an overall decline of the housing and development sectors, ornamental and tree markets are likely to continue experiencing weak demand and pricing pressure.

During 2011 credit quality remained relatively unchanged from 2010 with 86% of loan assets rated Acceptable and OAEM at December 31, 2011. Association delinquencies showed a dramatic improvement during 2011, and the rolling twelve month average delinquency rate was 0.49% at December 31, 2011 compared to 1.10% at December 31, 2010.

There has been little change in the Association's market region over the past year. The Association's Agribusiness Lending Group continues to serve and target large high-quality farm and agribusiness customers. The group continues to report good growth in 2011. The Lifestyle and Small Business Lending Group has maintained a consistent market presence in consumer and middle market lending and its growth has stabilized in 2011. The Association continues to maintain its marketing efforts and activity in the lifestyle farm and rural residential market segments. The Association also continues to serve young, beginning and small farm customers in this lending group.

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.

Loan Type	December 31,					
	2011		2010		2009	
	<i>(dollars in thousands)</i>					
Production and intermediate-term	\$ 158,080	46.18%	\$ 175,070	46.56%	\$ 157,556	42.49%
Real estate mortgage	130,026	37.98	135,214	35.96	140,205	37.81
Rural residential real estate	17,854	5.21	20,834	5.54	27,204	7.34
Loans to cooperatives	14,575	4.26	18,711	4.98	22,063	5.95
Farm-related business	13,442	3.93	17,270	4.59	6,433	1.74
Processing and marketing	5,634	1.65	5,933	1.58	14,145	3.81
Energy	2,736	0.80	2,969	0.79	3,169	0.85
Total	<u>\$ 342,346</u>	<u>100.00%</u>	<u>\$ 376,001</u>	<u>100.00%</u>	<u>\$ 370,775</u>	<u>100.00%</u>

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 distribution of the loan volume by line of business for the past three years is as follows:

Line of Business	December 31,		
	2011	2010	2009
Apopka	10.21%	10.94%	13.31%
Plant City	6.19	6.09	6.07
Brooksville	3.88	3.64	4.21
Lake Wales	3.53	3.91	4.10
Lakeland	2.83	2.89	3.44
Agribusiness	60.33	58.70	52.69
Capital Markets	6.69	7.24	7.22
Residential Lending	0.05	0.08	0.06
Special Assets	6.29	6.50	8.90
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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 loan portfolio are shown below. The predominant commodities are nursery, citrus, strawberries, and livestock, which constitute over 73 percent of the entire portfolio.

Commodity Group per SIC Codes	December 31 2010		December 31 2009		December 31 2008	
	<i>(dollars in thousands)</i>					
Nursery	\$ 86,505	25.26%	\$ 96,809	25.75%	\$ 90,956	24.53%
Citrus	67,226	19.64	68,515	18.22	65,086	17.55
Strawberries	53,230	15.55	51,849	13.79	47,247	12.74
Livestock	44,862	13.10	45,795	12.18	47,296	12.76
Blueberries	13,651	3.99	26,602	7.07	14,421	3.89
Fruits & Vegetables	15,467	4.52	16,362	4.35	17,273	4.66
Rural Home	12,153	3.55	16,067	4.27	19,898	5.37
Timber	12,224	3.57	14,252	3.79	13,904	3.75
Landlord/Lessors	7,762	2.27	9,895	2.63	10,258	2.77
Other	29,266	8.55	29,854	7.94	44,436	11.98
Total	<u>\$ 342,346</u>	<u>100.00%</u>	<u>\$ 376,001</u>	<u>100.00%</u>	<u>\$ 370,775</u>	<u>100.00%</u>

The Association manages concentration risks, both industry and large borrower, through an internal hold limit policy based on individual loan risk ratings, loss given defaults, and industry concentrations. Industry concentrations for hold limit purposes are calculated using the repayment dependency code rather than the SIC code. As a result, for portfolio management purposes, industry classifications are determined based on high dependency of repayment coming from the actual commodity itself. Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. For example, citrus and livestock industries are a large percent of the total portfolio but each also have very low repayment dependency coming from the actual commodity itself. Portfolio management industries concentrations are classified in three concentration levels based on the industry concentration (with high dependency) as a percent of total ACA capital; 1) High – greater than 100% of total capital; 2) Medium – between 50% and 100% of total capital; and 3) Low – less than 50% of total capital. The Association’s loan portfolio contains a high concentration in the nursery industry and a medium concentration in the strawberry industry. All other industries are in the low concentration level.

Portfolio Management Industry as % of Capital	December 31	
	2011	2010
	<i>(% of Total Capital)</i>	
Nursery	101.92%	109.17%
Strawberries	74.66	69.98
Citrus	39.07	44.62
Fruits & Vegetables	27.07	31.09
Blueberries	17.42%	23.46%

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 as well as the new internal hold limit policy which will limit any additional increases to already high concentrations.

The decrease in loan volume for the twelve months ended December 31, 2011, is primarily attributed to flat lending activity combined with liquidations from large corporate borrowers within participation loan asset sales to AgFirst. The implementation of the internal hold limit policy offset with the utilization of FarmerMac’s Long-Term Standby Commitment Guarantee program contributed to lower volumes being sold to AgFirst.

For the past few years, the Association has experienced a shift in loan assets. Expressed as a percentage of net loans, 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 cyclical in nature and heavily influenced by operating-type loans, normally reaches a minimum balance in August or September and rapidly increases in the fall months as strawberry and other winter vegetable growers increase their borrowings to prepare for the next crop season. The Association has grown the long-term portfolio through increased mortgage lending on real estate and facilities used for agriculture production.

During 2011, the Association decreased activity in total loan participations within and outside of the System. Loan participations provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen its capital position.

Loan Participations:	December 31,		
	2011	2010	2009
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 22,903	\$ 27,235	\$ 26,889
Participations Sold	<u>(318,524)</u>	<u>(351,673)</u>	<u>(418,563)</u>
Total	<u>\$ (295,621)</u>	<u>\$ (324,438)</u>	<u>\$ (391,674)</u>

For the years ended December 31, 2011, 2010, and 2009, 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.

The Association sells qualified long-term residential mortgage loans into the secondary market. For the years ended December 31, 2011, 2010, and 2009, the Association originated loans for resale totaling \$3,335, \$8,645, and \$11,025, respectively, which were sold into the secondary market.

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 of pools of Small Business Administration (SBA) guaranteed loans. These investments carry the full faith and credit of the United States government. The balance of these SBA investments, classified as being held-to-maturity, amounted to \$47,285 at December 31, 2011, \$45,476 at December 31, 2010, and \$49,648 at December 31, 2009.

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 made only in amounts up to 85 percent of the original 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. With certain exceptions identified in Association policy, appraisals are required for loans of more than \$250,000. 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 risks 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	86.04%	88.27%	88.24%
Substandard	13.96%	11.73%	11.76%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. The 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	December 31,		
	2011	2010	2009
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 18,815	\$ 23,910	\$ 31,860
Restructured loans	11,965	–	–
Accruing loans 90 days past due	–	–	–
Total high-risk loans	30,780	23,910	31,860
Other property owned	3,394	6,806	2,026
Total high-risk assets	\$ 34,174	\$ 30,716	\$ 33,886
Ratios			
Nonaccrual loans to total loans	5.50%	6.36%	8.59%
High-risk assets to total assets	8.41%	6.80%	7.60%

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. Nonaccrual loans decreased \$5,095 or 21% in 2011. This decrease is a result of charge-offs ranging from various industries and loan types. The largest sectors are residential lot loans and nursery loans due to the weakness associated with the individual borrower's repayment capacity and continuing decline of overall collateral values. Of the \$18,815 in nonaccrual volume at December 31, 2011, \$4,365 or 23%, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status compared to 25% and 27% at December 31, 2010 and 2009, respectively. The 2011 Other Property Owned balance of \$3,394 consists of 16 real estate parcels obtained through foreclosure or deed-in-lieu of foreclosure actions.

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 the borrower.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses is broken down between specific reserves assigned to an individual loan and general reserves which are available for the expected losses within the entire portfolio. The current allowance for loan losses at December 31, 2011 contains \$4,485 in specific reserves and \$5,673 in general reserves.

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

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2011	2010	2009
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 4,426	\$ 5,959	\$ 5,243
Charge-offs:			
Real estate mortgage	(883)	(2,170)	(4,242)
Production and intermediate-term	(2,831)	(7,048)	(474)
Agribusiness	(1)	(111)	(1,299)
Rural residential real estate	(1,008)	(1,315)	(684)
Total charge-offs	(4,723)	(10,644)	(6,699)
Recoveries:			
Real estate mortgage	17	15	-
Production and intermediate-term	205	244	-
Rural residential real estate	31	35	-
Total recoveries	253	294	-
Net (charge-offs) recoveries	(4,470)	(10,350)	(6,699)
Provision for (reversal of allowance for) loan losses	10,202	8,817	7,415
Balance at end of year	\$ 10,158	\$ 4,426	\$ 5,959
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(1.28)%	(2.87)%	(1.79)%

The \$10,202 provision for loan loss taken in 2011 was associated with nursery, real estate lot loans, and cattle due to weaknesses with the individual borrower's repayment capacity and continuing decline of overall collateral values. The net loan charge-offs of \$4,470 were primarily associated with the same industries and were attributed to the overall decline in collateral values causing increased expected loan losses.

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

Allowance for Loan Losses by Type	December 31,		
	2011	2010	2009
	<i>(dollars in thousands)</i>		
Real estate mortgage	\$ 4,319	\$ 2,266	\$ 2,144
Production and intermediate-term	4,793	1,585	2,729
Agribusiness	38	59	143
Energy	4	4	12
Rural residential real estate	1,004	512	931
Total loans	\$ 10,158	\$ 4,426	\$ 5,959

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:	December 31,		
	2011	2010	2009
Total loans	2.97%	1.18%	1.61%
Nonperforming loans	33.00%	18.51%	18.70%
Nonaccrual loans	53.99%	18.51%	18.70%

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. The Allowance for Loan Losses was determined according to generally accepted accounting principles.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was \$9,955, \$9,019, and \$9,516 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 primary reason for the increase in net interest income is the increase in average loan spreads as compared to the same time last year. 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:

	Nonaccrual			
	Volume*	Rate	Income	Total
	<i>(dollars in thousands)</i>			
12/31/11 - 12/31/10				
Interest income	\$ (305)	\$ (185)	\$ 192	\$ (298)
Interest expense	(334)	(900)	-	(1,234)
Change in net interest income	\$ 29	\$ 715	\$ 192	\$ 936
12/31/10 - 12/31/09				
Interest income	\$ (1,343)	\$ (1,215)	\$ (15)	\$ (2,573)
Interest expense	(409)	(1,667)	-	(2,076)
Change in net interest income	\$ (935)	\$ 452	\$ (15)	\$ (497)

* 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			Percentage Increase/(Decrease)	
	December 31, 2011	2010	2009	2011/2010	2010/2009
	<i>(dollars in thousands)</i>				
Loan fees	\$ 569	\$ 662	\$ 911	(14.05)%	(27.33)%
Fees for financially related services	133	246	456	(45.93)	(46.05)
Patronage refund from other Farm Credit Institutions	4,925	7,500	5,286	(34.33)	41.88
Gains (losses) on other property owned, net	(3,018)	(1,158)	(81)	160.62	1,329.63
Gains (losses) on sales of rural home loans, net	84	197	216	(57.36)	(8.80)
Insurance Fund Refund		428	-	(100.00)	-
Other noninterest income	35	98	143	(64.29)	(31.47)
Total noninterest income	\$ 2,728	\$ 7,973	\$ 6,931	(65.78)%	15.03%

Noninterest income decreased \$5,245 or 65.78% for December 31, 2011, as compared to the same period of 2010. December 31, 2010 noninterest income increased \$1,042 or 15.03% when compared to the same period of 2009. The decrease in noninterest income for 2011 is primarily the result of the decrease in patronage refund from other Farm Credit Institutions and losses on Other Property Owned. The Association's patronage earnings from the Capitalized Participation Pool (CPP) with AgFirst were \$0 compared to prior year's \$2,014 due to the decline in credit quality in the CPP portfolio. In addition, the Association received less patronage payment from AgFirst on all other pools as a result of a decrease in loan assets sold to the other AgFirst pools. The Association incurred an additional \$1,860 loss on Other Property Owned compared to the same period of 2010. The losses are made up of expenses of holding the OPO asset as well as write-downs of the asset due to lower market values for the properties and additional losses taken at the time of the sale of the asset. During 2010, the Association recorded \$428 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

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,			Percentage Increase/(Decrease)	
	2011	2010	2009	2011/ 2010	2010/ 2009
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 5,481	\$ 5,018	\$ 5,085	9.23%	(1.32)%
Occupancy and equipment	683	685	702	(0.29)	(2.42)
Insurance Fund premium	196	179	640	9.50	(72.03)
Other operating expenses	1,688	1,396	1,446	20.92	(3.46)
Total noninterest expense	\$ 8,048	\$ 7,278	\$ 7,873	10.58%	(7.56)%

Noninterest expense increased \$770 or 10.58 percent for December 31, 2011, as compared to the same period of 2010 and decreased \$595 or 7.56 percent compared to December 31, 2009. The primary reason for the increase in 2011 was the increase in Salaries and Employee Benefits as well as from Other Operating Expenses.

During 2011, the Association has been able to achieve full employment as compared to prior year. As a result, Salary and Employee Benefits are up 9.23% from prior year. Other Operating Expenses are 20.92% higher than prior year due to the implementation of loans guaranteed in the FarmerMac Long Term Stand-by Guarantee Program. The Association pays a fee to FarmerMac for an unconditional guarantee on certain loan assets placed in the program. In addition, the Association entered into a service contract with AgFirst to provide the ACA with all necessary personnel and assistance for the maintenance and management of all information technology issues.

Insurance Fund premiums increased 9.5 percent for the twelve months ended December 31, 2011, compared to the same period of 2010. The Farm Credit System Insurance Corporation (FCSIC) changed the methodology in assessing the insurance premiums as a result of the 2008 Farm Bill. Please refer to the "Regulatory

Matters" section of this Management's Discussion and Analysis for details concerning the 2008 Farm Bill. The FCSIC set premiums at 6 basis points on adjusted insured debt outstanding for 2011 and 2010 with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. For 2009, the FCSIC set premiums at 20 basis points on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. For all previous years, 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 did not record a provision or benefit for income taxes for the year ended December 31, 2011, 2010, or 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	(1.34)%	0.21%	0.26%
Return on average members' equity	(7.26)%	1.15%	1.50%
Net interest income as a percentage of average earning assets	2.68%	2.38%	2.35%
Net (charge-offs) recoveries to average loans	(1.28)%	(2.87)%	(1.79)%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income as well as improvement in overall asset quality. 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 stabilize and improve 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 \$329,555 as compared to \$369,260 at December 31, 2010 and \$363,528 at December 31, 2009. The decrease of 10.75 percent compared to December 31, 2010 was attributable to the decrease of total loan assets. The average volume of outstanding notes payable to the Bank was \$334,683 and \$348,040 for the years ended December 31, 2011 and 2010, respectively. Refer to Note 8, "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 investments and other secondary market programs provide additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no 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 90-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 8, "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 5, "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" section of this Management's Discussion and Analysis and in Note 8, "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. There were no material changes to the capital plan for 2011 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2011, decreased 7.33% percent to \$71,802 from the December 31, 2010, total of \$77,484. At December 31, 2010, total members' equity increased 0.90 percent from the December 31, 2009 total of \$76,794. The decrease in 2011 was primarily attributed to the negative earnings which caused a decrease in retained earnings (allocated surplus and unallocated surplus) in addition to the reduction in capital stock and participation certificates.

Total capital stock and participation certificates were \$1.026 on December 31, 2011, compared to \$1.129 on December 31, 2010 and \$1.246 on December 31, 2009. The 2011 decrease from 2010 and the 2010 decrease from 2009 were attributed to the retirement of protected borrower stock and participation certificates on loans liquidated in the normal course of business and the retirement of excess stock through revolvement.

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 standards 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	18.84%	16.28%	15.89%	7.00%
Total surplus ratio	18.16%	15.65%	15.23%	7.00%
Core surplus ratio	15.72%	13.48%	13.05%	3.50%

The increase in the Association's Permanent Capital for December 31, 2011 from December 31, 2010 was attributed to the decrease in risk adjusted assets. This decrease in risk adjusted assets also caused the increase in the Association's Total Surplus Ratio and Core Surplus Ratio for 2011. The nominal increase in the Association's 2010 Total Surplus and Core Surplus ratios results from the increase in allocated surplus as compared to 2009. There are no 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 9, "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, (b) participation loans purchased, and (c) other non-patronage sourced activities, the remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 9, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association did not declare any patronage distributions in 2011 due to a negative amount available for patronage distribution, after the exclusion of all non-patronage sourced activities. The Association did not declare patronage distributions in 2010 and in 2009.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. As a result, 2011 goals for new volume were

established. However, due to continued credit quality issues within all portfolios, the established goals were not met during 2011.

The following table outlines the 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
Young	91	\$10,153
Beginning	266	62,194
Small	556	76,127

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 2010 USDA Ag census data 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 18,560 reported farmers of which by definition 412 or 2.22 percent were Young, 4,927 or 26.55 percent were Beginning, and 13,221 or 71.23 percent were Small. Comparatively, as of December 31, 2011, the demographics of the Association's agricultural portfolio contained 913 YBS farmers, of which by definition 91 or 9.97 percent were Young, 266 or 29.13 percent were Beginning and 556 or 60.90 percent were Small.

The Association Board of Directors has adopted a Young, Beginning, and Small Farmer Plan with specific goals for the number of loans and new volume closed for 2012 and two succeeding years. The Association will continue to review the demographics of its territory during 2012 utilizing 2010 Ag census data.

The following strategies and outreach programs have been conducted which assists and supports the Association's efforts to meet its objectives and goals for financing to the Young, Beginning, and Small farmers.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations.
- Sponsor seminars on farm transition planning and financial management.
- Youth livestock financing program for Youth Steer and Swine Shows. Available territory wide.
- Financial Training in cooperation with Florida Southern College, Citrus and Horticulture Dept.
- Employees serve as judges for youth livestock project record books.
- Sponsor participants and participate in Florida Council of Coops, Young Cooperator Conference.
- Sponsor Florida Nursery Growers Young Professional Award.

In addition, the Association's lending personnel actively participate in various commodity trade group conferences and continuing education programs.

Association lenders have established performance goals to provide informational and financial training to agricultural youth groups and industry trade associations.

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

For the twelve months ended December 31, 2011, the FCA took no enforcement action against the Association.

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 Florida:

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
115 S. Missouri Ave.* Lakeland	Administrative/ Branch	Leased
507 E. Third Street Apopka	Branch	Owned
36 W. Polk Avenue Lake Wales	Branch	Owned
2301 Thonotosassa Road Plant City	Branch	Owned
31081 Cortez Blvd.** Brooksville	Branch	Leased

* The Administrative / branch office located at 115 S. Missouri Ave. is leased through December 31, 2016 with a 4-year option to renew.

**The branch office located at 31081 Cortez Blvd. is leased through November 30, 2012.

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 13 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 9 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, 8 and 13 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 and their business experience for the past five years:

<u>Senior Officer</u>	<u>Time in Position</u>	<u>Prior Experience</u>
Reginald T. Holt, <i>President & Chief Executive Officer</i>	4 years	Sr. VP & Director of Agribusiness Lending from October 1997 to April 2008. Area VP from June 1992 to October 1997. Also serves on the Executive Committee of the AgFirst Farm Credit Council.
Craig A. Register, <i>Executive Vice President / Chief Lending Officer</i>	4 years	Director of Credit Administration at AgFirst from December 2004 to February 2008. Various positions of increasing responsibilities in the Association's Credit Department from January 1986 to November 2004.
D. Scott Fontenot, <i>Executive Vice President & Corporate Treasurer / CFO</i>	3 years	Association Director of Risk Management from March 2009 to June 2009. EVP & CFO of Jack M. Berry, Inc. from 2005 to 2009. CFO of Farm Credit of Southwest Florida from 2000 to 2004.
Courtney A. Eelman <i>Sr. Vice President Director of Loan Administration</i>	4 years	Association Credit Administrator from December 2003 to March 2008. Credit Analyst with AmSouth Bank from November 2001 to December 2003. Association Credit Analyst from December 1999 to October 2001.

Senior Officer	Time in Position	Prior Experience
Jeffrey T. Phillips, <i>Sr. Vice President / Chief Relationship Manager</i>	4 years	Association Sr. Relationship Manager from January 2001 to March 2008, Association Credit Analyst from August 1997 to January 2001.
Regina W. Thomas, <i>Sr. Vice President / Chief Business Development Officer</i>	4 years	Association Relationship Manager from November 1999 to March 2008. Branch Manager at Carolina Farm Credit from April 1994 to November 1999. Also serves on the Executive Committee of the University of Florida IFAS Share Council, Chair of the University of Florida Food and Research Economics Advisory Committee and FNGLA member .
M. Ronald O'Connor <i>Sr. Vice President /Marketing Related Service Manager and Governmental Affairs</i>	3 years	Association Marketing Related Service Manager from March 1987 to March 2009. Also member of the Florida Citrus Mutual, Florida Cattlemen's Association's, FNGLA's allied committees, Florida Ag Hall of Fame, Florida Council of Cooperatives and awarded an Honorary FFA membership.
Johan S. Dam <i>Sr. Vice President /Corporate Relationship Manager and Special Asset Manager</i>	3 years	Association Corporate Relationship Manager from May 2007 to February 2009. AVP Commercial Relationship Manager SunTrust Bank from December 1999 to April 2007.

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	Year	Annual					Total
		Salary	Bonus	Deferred Comp.	Perq./ Other*		
Reginald T. Holt	2011	\$ 300,010	\$ -	\$ -	\$ -	\$ 300,010	
Reginald T. Holt	2010	\$ 264,010	\$ -	\$ -	\$ -	\$ 264,010	
Reginald T. Holt	2009	\$ 264,010	\$ -	\$ -	\$ -	\$ 264,010	
8	2011	\$ 1,041,292	\$ -	\$ -	\$ -	\$ 1,041,292	
8	2010	\$ 984,053	\$ -	\$ -	\$ -	\$ 984,053	
9	2009	\$ 951,571	\$ -	\$ -	\$ -	\$ 951,571	

* Amounts in the above table classified as Perquisites include travel incentives, group life insurance, automobile compensation, purchased automobile, spousal travel, relocation and tuition reimbursement, if the annual aggregate value of such Perquisites is more than \$5,000.

Disclosure of information on the total compensation paid during 2011 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

In addition to base salary, all Association employees may earn additional compensation under a corporate bonus plan. However, during 2011 no bonuses were paid to employees.

The Association also sponsors a non-qualified defined benefit supplemental executive retirement plan for the Association's former CEO. The purpose of the non-qualified plan is to provide benefits that supplement the qualified defined benefit plan in which the Association's employees participate. For the former

CEO, compensation in excess of the 401(a)(17) limit and benefits in excess of the 415(b) limit in the qualified defined benefit plan will be made up through the non-qualified plan. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association. Additionally, 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.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, current committee assignments and total cash compensation paid:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2011
Al Bellotto, <i>Chairman</i>	1991	2012	\$ 38,900
David J. Stanford, <i>Vice-Chairman</i>	1992	2014	34,600
C. Dennis Carlton, Sr.	2004	2013	10,700
L. Baylis Carnes, III	2008	2014	15,900
W. Rex Clonts, Jr.	1997	2012	11,800
Homer E. Hunnicutt, Jr.	1991	2013	18,900
John S. Langford	2005	2012	14,900
Robert R. Roberson	1997	2013	15,900
Lewis S. Stidham, <i>Outside Director</i>	1995	2013	19,400
Ronald R. Wetherington	1993	2014	16,200
			\$ 197,200

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

Al Bellotto, Chairman, is a cattleman and citrus grower and serves on the boards of the Florida Cattlemen's Association and the Polk County Cattlemen's Association (Beef Promotion). His principal occupation and employment for the past 5 years was with Al Bellotto, Inc.

David J. Stanford, Vice-Chairman, is a citrus grower and now retired citrus processor and serves on the board of South Lake Apopka Citrus Growers Association (citrus cooperative).

C. Dennis Carlton, Sr. is a cattleman, citrus grower and real estate broker and serves on the boards of Valrico State Bank, Center State Bank & Agricultural Economic Development Council of Hillsborough County.

L. Baylis Carnes, III operates sand and gravel plants and is a timber and citrus producer and serves on the board of Standard Sand and Silica Company. His principal occupation for the past 5 years was with Standard Sand and Silica Company.

W. Rex Clonts, Jr. is a citrus grower and serves on the boards of Florida Citrus Mutual, the Florida Fruit and Vegetable Association, and Citizens Bank of Florida. His principal occupation and employment for the past 5 years was with Clonts Groves, Inc.

Homer E. Hunnicutt, Jr. is a cattleman and serves on the boards of SunTrust Bank – Nature Coast. His principal occupation and employment for the past 5 years was with Finest Farms.

John S. Langford is a citrus grower, citrus fruit dealer and real estate agent and serves on the boards of Community Southern Bank (Lakeland, FL), the Polk County Farm Bureau, currently serves as its’ Treasurer, and has served as Vice-Chairman of the Polk County Planning Commission. His principal occupation and employment for the past 5 years was with John Langford, Inc. He is the designated financial expert for Farm Credit of Central Florida. Mr. Langford also serves as a Director of AgFirst Farm Credit Bank.

Robert R. Roberson is a nurseryman and serves on the board of Bank First (Apopka, FL). His principal occupation and employment for the past 5 years was with Foliage Factory Too, Inc. and Rob-S Holdings LLC dba FFT Nursery. Mr. Roberson owns Less Energy Systems LLC, an energy savings company in Apopka, FL. In addition, he has an active real estate license with Lou Haubner Realty.

Lewis S. Stidham is a former commercial banker from Citrus & Chemical Bank. His principal occupation for the past 5 years has been self-employment.

Ronald R. Wetherington is a strawberry and citrus grower and serves on the boards of the Hillsborough County Farm Bureau, Florida Farm Bureau Insurance Company, Florida Farm Bureau Federation, and Hillsborough County Law Enforcement Association. His principal occupation and employment for the past 5 years was with Wetherington Farms.

Subject to approval by the board, the Association may allow directors an annual retainer of \$3,000 to be paid monthly and honoraria of \$400 for attendance at meetings and committee meetings, \$300 for special assignments, \$200 for telephone conference calls and \$200 for travel days that include an overnight stay. Total compensation paid to directors as a group was \$197,200 for 2011. No director received more than \$5,000 in non-cash compensation during the year.

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

Name of Director	Days Served		Committee Assignments	Comp. Paid for Other Activities*
	Regular Board Meetings	Other Official Activities*		
Al Bellotto, <i>Chairman</i>	12	79	Executive, Compensation, Legislative	\$ 34,100
David J. Stanford, <i>Vice-Chairman</i>	12	72	Executive, Compensation, Risk Management	29,800
C. Dennis Carlton, Sr.	11	11	Risk Management, Legislative	6,300
L. Baylis Carnes, III	10	24	Compensation, Risk Management	11,900
W. Rex Clonts, Jr.	12	11	Audit, Legislative	7,000
Homer E. Hunnicutt, Jr.	12	31	Audit, Risk Management	14,100
John S. Langford	12	20	Audit, Risk Management	10,100
Robert R. Roberson	12	22	Audit, Legislative	11,100
Lewis S. Stidham	11	33	Audit, Risk Management	15,000
Ronald R. Wetherington	11	25	Audit, Legislative	11,800
				\$ 151,200

* Includes board committee meetings and other board activities other than regular board meetings.

Directors are reimbursed on an actual cost basis for all 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 \$45,321 for 2011, \$26,250 for 2010 and \$52,402 for 2009.

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 Accountant

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 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	\$ 62,732
Total	<u>\$ 62,732</u>

PricewaterhouseCoopers audit fees were for the annual audit of and for rendering an opinion on the Association’s Consolidated Financial Statements.

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 1-800-533-2773 or writing D. Scott Fontenot, Chief Financial Officer, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802 or accessing the web site, www.farmcreditfl.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.

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 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 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

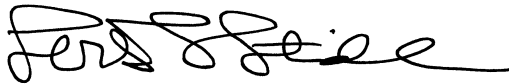
The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of Central Florida, ACA and in the opinion of the Board of Directors, each is free of any relationship with the Association 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 accountant 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:



Lewis S. Stidham
Chairman of the Audit Committee

Members of Audit Committee

W. Rex Clonts, Jr.
Homer E. Hunnicutt, Jr.
John S. Langford
Robert R. Roberson
Ronald R. Wetherington

March 13, 2012

Report of Independent Certified Public Accountants



Report of Independent Certified Public Accountants

To the Board of Directors and Members
of Farm Credit of Central Florida, 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 Farm Credit of Central Florida, 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

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Consolidated Balance Sheets

<i>(dollars in thousands)</i>	2011	December 31, 2010	2009
Assets			
Cash	\$ 512	\$ 13	\$ 61
Investment securities:			
Held to maturity (fair value of \$48,038, \$45,946 and \$50,057 respectively)	47,285	45,476	49,648
Loans	342,346	376,001	370,775
Less: allowance for loan losses	10,158	4,426	5,959
Net loans	332,188	371,575	364,816
Loans held for sale	—	—	149
Accrued interest receivable	1,614	1,735	1,819
Investments in other Farm Credit institutions	11,665	13,348	16,225
Premises and equipment, net	747	870	998
Other property owned	3,394	6,806	2,026
Due from AgFirst Farm Credit Bank	4,643	6,980	4,942
Other assets	4,364	4,890	5,100
Total assets	\$ 406,412	\$ 451,693	\$ 445,784
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 329,555	\$ 369,260	\$ 363,528
Accrued interest payable	574	724	768
Patronage refund payable	26	29	34
Other liabilities	4,455	4,196	4,660
Total liabilities	334,610	374,209	368,990
Commitments and contingencies			
Members' Equity			
Protected borrower stock	6	19	33
Capital stock and participation certificates	1,020	1,110	1,213
Retained earnings			
Allocated	33,183	33,183	33,183
Unallocated	37,586	43,153	42,338
Accumulated other comprehensive income	7	19	27
Total members' equity	71,802	77,484	76,794
Total liabilities and members' equity	\$ 406,412	\$ 451,693	\$ 445,784

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

Consolidated Statements of Operations

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2011	2010	2009
Interest Income			
Investment securities	\$ 938	\$ 871	\$ 945
Loans	16,489	16,854	19,353
Total interest income	17,427	17,725	20,298
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	7,472	8,706	10,782
Net interest income	9,955	9,019	9,516
Provision for loan losses	10,202	8,817	7,415
Net interest income after provision for loan losses	(247)	202	2,101
Noninterest Income			
Loan fees	569	662	911
Fees for financially related services	133	246	456
Patronage refund from other Farm Credit institutions	4,925	7,500	5,286
Gains (losses) on other property owned, net	(3,018)	(1,158)	(81)
Gains (losses) on sales of rural home loans, net	84	197	216
Insurance Fund refunds	—	428	—
Other noninterest income	35	98	143
Total noninterest income	2,728	7,973	6,931
Noninterest Expense			
Salaries and employee benefits	5,481	5,018	5,085
Occupancy and equipment	683	685	702
Insurance Fund premiums	196	179	640
Other operating expenses	1,688	1,396	1,446
Total noninterest expense	8,048	7,278	7,873
Net income (loss)	\$ (5,567)	\$ 897	\$ 1,159

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

Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2008	\$ 39	\$ 1,259	\$ 34,758	\$ 40,252	\$ 31	\$ 76,339
Comprehensive income						
Net income				1,159		1,159
Employee benefit plans adjustments (Note 11)					(4)	(4)
Total comprehensive income						1,155
Protected borrower stock retired	(6)					(6)
Capital stock/participation certificates issued/(retired), net		(46)				(46)
Retained earnings retired			(1,142)			(1,142)
Patronage distribution adjustment			(433)	927		494
Balance at December 31, 2009	33	1,213	33,183	42,338	27	76,794
Comprehensive income						
Net income				897		897
Employee benefit plans adjustments (Note 11)					(8)	(8)
Total comprehensive income						889
Protected borrower stock retired	(14)					(14)
Capital stock/participation certificates issued/(retired), net		(103)				(103)
Patronage distribution adjustment				(82)		(82)
Balance at December 31, 2010	19	1,110	33,183	43,153	19	77,484
Comprehensive income (loss)						
Net income (loss)				(5,567)		(5,567)
Employee benefit plans adjustments (Note 11)					(12)	(12)
Total comprehensive income (loss)						(5,579)
Protected borrower stock retired	(13)					(13)
Capital stock/participation certificates issued/(retired), net		(90)				(90)
Balance at December 31, 2011	\$ 6	\$ 1,020	\$ 33,183	\$ 37,586	\$ 7	\$ 71,802

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

Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net income (loss)	\$ (5,567)	\$ 897	\$ 1,159
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	167	182	199
Amortization (accretion) of net deferred loan origination costs (fees)	68	54	(12)
Premium amortization (discount accretion) on investments	674	759	783
Provision for loan losses	10,202	8,817	7,415
(Gains) losses on other property owned, net	3,018	1,158	81
Changes in operating assets and liabilities:			
(Increase) decrease in loans held for sale, net	—	149	(149)
(Increase) decrease in accrued interest receivable	121	84	805
(Increase) decrease in due from AgFirst Farm Credit Bank	2,337	(2,038)	1,075
(Increase) decrease in other assets	526	210	28
Increase (decrease) in accrued interest payable	(150)	(44)	(485)
Increase (decrease) in other liabilities	247	(472)	82
Total adjustments	17,210	8,859	9,822
Net cash provided by (used in) operating activities	11,643	9,756	10,981
Cash flows from investing activities:			
Purchases of investment securities, held to maturity	(9,984)	(6,004)	(10,565)
Proceeds from maturities of or principal payments received on investment securities, held to maturity	7,501	9,417	10,510
Net (increase) decrease in loans	26,377	(23,562)	43,353
(Increase) decrease in investment in other Farm Credit institutions	1,683	2,877	(2,182)
Purchases of premises and equipment	(44)	(54)	(165)
Proceeds from sales of other property owned	3,134	1,994	13
Net cash provided by (used in) investing activities	28,667	(15,332)	40,964
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(39,705)	5,732	(48,606)
Protected borrower stock retired	(13)	(14)	(6)
Capital stock and participation certificates issued/(retired), net	(90)	(103)	(46)
Patronage refunds and dividends paid	(3)	(87)	(2,120)
Retained earnings retired	—	—	(1,142)
Net cash provided by (used in) financing activities	(39,811)	5,528	(51,920)
Net increase (decrease) in cash	499	(48)	25
Cash, beginning of period	13	61	36
Cash, end of period	\$ 512	\$ 13	\$ 61
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	\$ 2,740	\$ 7,932	\$ 1,616
Employee benefit plans adjustments (Note 11)	12	8	4
Supplemental information:			
Interest paid	\$ 7,622	\$ 8,750	\$ 11,267

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:** Farm Credit of Central Florida, 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/shareholders for qualified purposes in the counties of Brevard, Citrus, Hernando, Hillsborough, Lake, Orange, Osceola, Pasco, Pinellas, Polk, Seminole, Sumter, and Volusia in the state of Florida.

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 makes 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 and accordingly have been reported at amortized cost. 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. Mortgage-backed securities issued by Farmer Mac are considered other investments. 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. Farmer Mac investments are classified either as held-to-maturity or available-for-sale depending on the institution's ability and intent to hold the investment to maturity.

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, 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.

Loan origination fees and direct loan origination costs are deferred as part of the carrying amount of the loan and the net fee or cost is amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

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. **Loans Held for Sale:** Certain rural home mortgage loans originated by the Association are sold on a servicing released basis primarily to the Bank or into the secondary market to unrelated third parties. Gains or losses on sales of rural home mortgage loans are recognized based on the difference between the selling price and the carrying value of the related rural home mortgage loans sold.
- 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. Useful life ranges from 3 to 10 years for furniture, equipment, and automobiles and up to 40 years for buildings and leasehold improvements. 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.

The Association also sponsors a single employer supplemental retirement plan for certain key employees. The plans are nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in other liabilities. See Note 11 for the impact of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans for the current period for the defined benefit supplemental retirement plan.

- 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.
- 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 14.
- 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 11).

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 14).

Note 3 — Investment Securities

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	
Asset backed securities	\$ 47,285	\$ 782	\$ (29)	\$ 48,038	2.01%

December 31, 2010					
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield	
Asset backed securities	\$ 45,476	\$ 530	\$ (60)	\$ 45,946	1.82%

December 31, 2009					
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield	
Asset backed securities	\$ 49,648	\$ 490	\$ (81)	\$ 50,057	1.87%

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	\$ 5	\$ 5	1.67%
After one year through five years	1,121	1,152	1.17
After five years through ten years	26,849	27,400	2.18
After ten years	19,310	19,481	1.82
Total	\$ 47,285	\$ 48,038	2.01%

The Association's investments consist of asset-backed securities (ABSs). These ABSs are rated AAA and they are guaranteed by the full faith and credit of the United States government. Asset-backed securities are held for managing short-term surplus funds and managing interest rate risk. These securities must meet the applicable Farm Credit Administration (FCA) regulatory guidelines, which require these securities to be high quality, senior class, and rated AAA at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through over collateralization and the priority of payments of senior classes over junior classes. The FCA considers an asset-backed security investment ineligible if it falls below the AAA credit rating criteria and requires System institutions to divest of such an investment unless approval is granted to continue to hold by the FCA. All of the Association's asset-backed securities at December 31, 2011 are considered eligible under FCA regulatory guidelines.

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	
Asset-backed securities	\$ -	\$ -	\$ 853	\$ (29)

December 31, 2010				
Less than 12 Months		Greater than 12 Months		
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
Asset-backed securities	\$ 1,885	\$ (11)	\$ 1,369	\$ (49)

	December 31, 2009			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ -	\$ -	\$ 2,837	\$ (81)

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. 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 more likely than not that the Association would be required to sell these investments before recovering its costs. Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform.

Note 4 — Loans and Allowance for Loan Losses

A summary of loans follows:

<i>(dollars in thousands)</i>	December 31,		
	2011	2010	2009
Real estate mortgage	\$ 130,026	\$ 135,214	\$ 140,205
Production and intermediate-term Agribusiness	158,080	175,070	157,556
Loans to cooperatives	14,575	18,711	22,063
Processing and marketing	5,634	5,933	14,145
Farm-related business	13,441	17,270	6,433
Total agribusiness	33,650	41,914	42,641
Energy	2,736	2,969	3,169
Rural residential real estate	17,854	20,834	27,204
Total Loans	\$ 342,346	\$ 376,001	\$ 370,775

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:

<i>(dollars in thousands)</i>	December 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ -	\$ 67,075	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,075
Production and intermediate-term Agribusiness	19,680	237,464	-	-	-	-	19,680	237,464
Loans to cooperatives	205	8,196	-	-	-	-	205	8,196
Processing and marketing	282	3,084	-	-	-	-	282	3,084
Farm-related business	-	2,705	-	-	-	-	-	2,705
Total agribusiness	487	13,985	-	-	-	-	487	13,985
Energy	2,736	-	-	-	-	-	2,736	-
Total	\$ 22,903	\$ 318,524	\$ -	\$ -	\$ -	\$ -	\$ 22,903	\$ 318,524

Farm Credit of Central Florida, ACA

	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
<i>(dollars in thousands)</i>								
Real estate mortgage	\$ -	\$ 81,750	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,750
Production and intermediate-term Agribusiness	18,318	256,485	-	-	-	-	18,318	256,485
Loans to cooperatives	1,008	8,673	-	-	-	-	1,008	8,673
Processing and marketing	4,940	6,995	-	-	-	-	4,940	6,995
Farm-related business	-	2,324	-	-	-	-	-	2,324
Total agribusiness	5,948	17,992	-	-	-	-	5,948	17,992
Energy	2,969	-	-	-	-	-	2,969	-
Total	\$ 27,235	\$ 356,227	\$ -	\$ -	\$ -	\$ -	\$ 27,235	\$ 356,227

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 24.45 percent of loans had maturities of less than one year:

<i>(dollars in thousands)</i>	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 10,857	\$ 47,604	\$ 71,565	\$ 130,026
Production and intermediate-term Agribusiness	65,048	69,659	23,373	158,080
Loans to cooperatives	1,671	8,164	4,740	14,575
Processing and marketing	685	875	4,074	5,634
Farm-related business	737	5,531	7,173	13,441
Total agribusiness	3,093	14,570	15,987	33,650
Energy	2,736	-	-	2,736
Rural residential real estate	1,979	5,646	10,229	17,854
Total Loans	\$ 83,713	\$ 137,479	\$ 121,154	\$ 342,346

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		2011	2010	2009
Real estate mortgage:				Farm-related business:			
Acceptable	78.37%	77.31%	80.57%	Acceptable	99.98%	84.35%	84.33%
OAEM	5.88	7.10	9.41	OAEM	0.01	9.85	13.33
Substandard/doubtful/loss	15.75	15.59	10.02	Substandard/doubtful/loss	0.01	5.80	2.34
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Production and intermediate-term:				Total agribusiness:			
Acceptable	72.27%	75.53%	71.47%	Acceptable	98.66%	88.98%	89.12%
OAEM	12.93	14.95	13.60	OAEM	1.34	8.20	4.23
Substandard/doubtful/loss	14.80	9.52	14.93	Substandard/doubtful/loss	-	2.82	6.65
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Agribusiness:				Energy and water/waste disposal:			
Loans to cooperatives:				Acceptable	100.00%	100.00%	100.00%
Acceptable	96.92%	92.71%	88.21%	OAEM	-	-	-
OAEM	3.08	6.33	4.29	Substandard/doubtful/loss	-	-	-
Substandard/doubtful/loss	-	0.96	7.50		100.00%	100.00%	100.00%
	100.00%	100.00%	100.00%	Rural residential real estate:			
Processing and marketing:				Acceptable	71.15%	70.68%	81.53%
Acceptable	100.00%	90.72%	92.71%	OAEM	6.96	4.44	6.77
OAEM	-	9.28	-	Substandard/doubtful/loss	21.89	24.88	11.70
Substandard/doubtful/loss	-	-	7.29		100.00%	100.00%	100.00%
	100.00%	100.00%	100.00%	Total Loans:			
				Acceptable	77.35%	77.60%	77.92%
				OAEM	8.69	10.67	10.32
				Substandard/doubtful/loss	13.96	11.73	11.76
					100.00%	100.00%	100.00%

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

December 31, 2011						
<i>(dollars in thousands)</i>	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	\$ 1,019	\$ 6,141	\$ 7,160	\$ 123,397	\$ 130,557	\$ -
Production and intermediate-term Agribusiness	171	6,273	6,444	152,172	158,616	-
Loans to cooperatives	-	-	-	14,666	14,666	-
Processing and marketing	-	-	-	5,662	5,662	-
Farm-related business	-	-	-	13,517	13,517	-
Total agribusiness	-	-	-	33,845	33,845	-
Energy and water/waste disposal	-	-	-	2,736	2,736	-
Rural residential real estate	1,114	473	1,587	16,343	17,930	-
Total	\$ 2,304	\$ 12,887	\$ 15,191	\$ 328,493	\$ 343,684	\$ -

December 31, 2010						
<i>(dollars in thousands)</i>	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	\$ 1,993	\$ 5,354	\$ 7,347	\$ 128,457	\$ 135,804	\$ -
Production and intermediate-term Agribusiness	6,024	5,024	11,048	164,605	175,653	-
Loans to cooperatives	-	-	-	18,835	18,835	-
Processing and marketing	-	-	-	5,948	5,948	-
Farm-related business	-	41	41	17,312	17,353	-
Total agribusiness	-	41	41	42,095	42,136	-
Energy and water/waste disposal	-	-	-	2,969	2,969	-
Rural residential real estate	275	1,505	1,780	19,135	20,915	-
Total	\$ 8,292	\$ 11,924	\$ 20,216	\$ 357,261	\$ 377,477	\$ -

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:

<i>(dollars in thousands)</i>	December 31,		
	2011	2010	2009
Nonaccrual loans:			
Real estate mortgage	\$ 8,929	7,375	\$ 8,463
Production and intermediate-term Agribusiness	8,377	13,981	19,307
Loans to cooperatives	-	-	1,482
Farm-related business	-	41	151
Total agribusiness	-	41	1,633
Rural residential real estate	1,509	2,513	2,457
Total nonaccrual loans	\$ 18,815	23,910	\$ 31,860
Accruing restructured loans:			
Real estate mortgage	\$ 4,863	-	\$ -
Production and intermediate-term	6,319	-	-
Rural residential real estate	783	-	-
Total accruing restructured loans	\$ 11,965	-	\$ -
Accruing loans 90 days or more past due:			
Total accruing loans 90 days or more past due	\$ -	-	\$ -
Total nonperforming loans	\$ 30,780	23,910	\$ 31,860
Other property owned	3,394	6,806	2,026
Total nonperforming assets	\$ 34,174	30,716	\$ 33,886
Nonaccrual loans as a percentage of total loans	5.50%	6.36%	8.59%
Nonperforming assets as a percentage of total loans and other property owned	9.88%	8.02%	9.09%
Nonperforming assets as a percentage of capital	47.59%	39.64%	44.13%

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

<i>(dollars in thousands)</i>	December 31,		
	2011	2010	2009
Impaired nonaccrual loans:			
Current as to principal and interest	\$ 4,365	\$ 5,792	\$ 16,568
Past due	14,450	18,118	15,292
Total impaired nonaccrual loans	<u>18,815</u>	<u>23,910</u>	<u>31,860</u>
Impaired accrual loans:			
Restructured	11,965	-	-
90 days or more past due	-	-	-
Total impaired accrual loans	<u>11,965</u>	<u>-</u>	<u>-</u>
Total impaired loans	<u>\$ 30,780</u>	<u>\$ 23,910</u>	<u>\$ 31,860</u>

Additional impaired loan information is as follows:

<i>(dollars in thousands)</i>	December 31, 2011			Year Ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 6,845	\$ 7,958	\$ 2,543	\$ 5,405	\$ 60
Production and intermediate-term	4,960	6,857	1,239	3,916	44
Rural residential real estate	1,492	2,173	703	1,178	13
Total	<u>\$ 13,297</u>	<u>\$ 16,988</u>	<u>\$ 4,485</u>	<u>\$ 10,499</u>	<u>\$ 117</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 6,947	\$ 7,172	-	\$ 5,484	\$ 61
Production and intermediate-term	9,736	16,070	-	7,688	85
Agribusiness	-	-	-	-	-
Farm-related business	-	-	-	-	-
Total agribusiness	-	-	-	-	-
Rural residential real estate	800	857	-	631	7
Total	<u>\$ 17,483</u>	<u>\$ 24,099</u>	<u>\$ -</u>	<u>\$ 13,803</u>	<u>\$ 153</u>
Total impaired loans:					
Real estate mortgage	\$ 13,792	\$ 15,130	\$ 2,543	\$ 10,889	\$ 121
Production and intermediate-term	14,696	22,927	1,239	11,604	129
Agribusiness	-	-	-	-	-
Farm-related business	-	-	-	-	-
Total agribusiness	-	-	-	-	-
Rural residential real estate	2,292	3,030	703	1,809	20
Total	<u>\$ 30,780</u>	<u>\$ 41,087</u>	<u>\$ 4,485</u>	<u>\$ 24,302</u>	<u>\$ 270</u>
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	\$ 3,918	\$ 4,109	\$ 1,392	\$ 4,940	\$ 12
Production and intermediate-term	4,768	5,579	949	6,011	15
Rural residential real estate	1,013	1,037	338	1,277	3
Total	<u>\$ 9,699</u>	<u>\$ 10,725</u>	<u>\$ 2,679</u>	<u>\$ 12,228</u>	<u>\$ 30</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 3,457	\$ 4,349	-	\$ 4,358	\$ 11
Production and intermediate-term	9,213	15,276	-	11,615	28
Agribusiness	-	-	-	-	-
Farm-related business	41	54	-	52	-
Total agribusiness	41	54	-	52	-
Rural residential real estate	1,500	2,404	-	1,892	5
Total	<u>\$ 14,211</u>	<u>\$ 22,083</u>	<u>\$ -</u>	<u>\$ 17,917</u>	<u>\$ 44</u>
Total impaired loans:					
Real estate mortgage	\$ 7,375	\$ 8,458	\$ 1,392	\$ 9,298	\$ 23
Production and intermediate-term	13,981	20,855	949	17,626	43
Agribusiness	-	-	-	-	-
Farm-related business	41	54	-	52	-
Total agribusiness	41	54	-	52	-
Rural residential real estate	2,513	3,441	338	3,169	8
Total	<u>\$ 23,910</u>	<u>\$ 32,808</u>	<u>\$ 2,679</u>	<u>\$ 30,145</u>	<u>\$ 74</u>

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:

<i>(dollars in thousands)</i>	Year Ended December 31,		
	2011	2010	2009
Interest income which would have been recognized under the original loan terms	\$ 1,437	\$ 1,217	\$ 1,269
Less: interest income recognized	267	74	89
Foregone interest income	\$ 1,170	\$ 1,143	\$ 1,180

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

	December 31, 2011						Total
	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Energy and Water/Waste Disposal	Rural Residential Real Estate		
Allowance for credit losses:							
Balance at December 31, 2010	\$ 2,266	\$ 1,585	\$ 59	\$ 4	\$ 512	\$ 4,426	
Charge-offs	(883)	(2,831)	–	–	(1,009)	(4,723)	
Recoveries	17	205	–	–	31	253	
Provision for loan losses	2,919	5,834	(21)	–	1,470	10,202	
Balance at December 31, 2011	\$ 4,319	\$ 4,793	\$ 38	\$ 4	\$ 1,004	\$ 10,158	
December 31, 2011 allowance ending balance:							
Loans individually evaluated for impairment	\$ 2,543	\$ 1,239	\$ –	\$ –	\$ 703	\$ 4,485	
Loans collectively evaluated for impairment	\$ 1,776	\$ 3,554	\$ 38	\$ 4	\$ 301	\$ 5,673	
Recorded investment in loans outstanding:							
Ending Balance at December 31, 2011	\$ 130,557	\$ 158,616	\$ 33,845	\$ 2,736	\$ 17,930	\$ 343,684	
December 31, 2011 recorded investment ending balance:							
Loans individually evaluated for impairment	\$ 9,030	\$ 8,276	\$ –	\$ –	\$ 1,509	\$ 18,815	
Loans collectively evaluated for impairment	\$ 121,527	\$ 150,340	\$ 33,845	\$ 2,736	\$ 16,421	\$ 324,869	

December 31, 2010							
	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total	
Allowance for credit losses:							
Balance at December 31, 2009	\$ 2,144	\$ 2,729	\$ 143	\$ 12	\$ 931	\$ 5,959	
Charge-offs	(2,170)	(7,048)	(111)	–	(1,315)	(10,644)	
Recoveries	15	244	–	–	35	294	
Provision for loan losses	2,277	5,660	27	(8)	861	8,817	
Balance at December 31, 2010	\$ 2,266	\$ 1,585	\$ 59	\$ 4	\$ 512	\$ 4,426	
December 31, 2010 allowance ending balance:							
Loans individually evaluated for impairment	\$ 1,392	\$ 949	\$ –	\$ –	\$ 338	\$ 2,679	
Loans collectively evaluated for impairment	\$ 874	\$ 636	\$ 59	\$ 4	\$ 174	\$ 1,747	
Recorded investment in loans outstanding:							
Ending Balance at December 31, 2010	\$ 135,804	\$ 175,653	\$ 42,136	\$ 2,969	\$ 20,915	\$ 377,477	
December 31, 2010 recorded investment ending balance:							
Loans individually evaluated for impairment	\$ 7,375	\$ 13,981	\$ 41	\$ –	\$ 2,513	\$ 23,910	
Loans collectively evaluated for impairment	\$ 128,429	\$ 161,672	\$ 42,095	\$ 2,969	\$ 18,402	\$ 353,567	

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 \$25,762, \$30,194, and \$0 at December 31, 2011, 2010 and 2009, respectively. Fees paid to Farmer Mac for such commitments totaled \$175, \$25, and \$0 for 2011, 2010 and 2009, respectively. These amounts are classified as noninterest expense.

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.

(dollars in thousands)	Pre-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	\$ –	\$ 7,247	\$ –	\$ 7,247	\$ 805	\$ (6)
Production and intermediate-term	–	11,632	–	11,632	475	(227)
Rural residential real estate	–	1,102	–	1,102	115	–
Total	\$ –	\$ 19,981	\$ –	\$ 19,981	\$ 1,395	\$ (233)
Post-modification Outstanding Recorded Investment						
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	\$ –	\$ 7,327	\$ –	\$ 7,327	\$ 805	\$ (6)
Production and intermediate-term	–	11,561	–	11,561	475	(227)
Rural residential real estate	–	1,102	–	1,102	115	–
Total	\$ –	\$ 19,990	\$ –	\$ 19,990	\$ 1,395	\$ (233)

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 \$15,390 million, of which \$3,426 million were in nonaccrual status.

Note 5 — 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 \$11,358 for 2011, \$13,052 for 2010 and \$15,910 for 2009.

Note 6 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2011	2010	2009
Land	\$ 224	\$ 224	\$ 224
Buildings and improvements	880	873	873
Furniture and equipment	1,290	1,296	1,248
	<u>2,394</u>	<u>2,393</u>	<u>2,345</u>
Less: accumulated depreciation	1,647	1,523	1,347
Total	<u>\$ 747</u>	<u>\$ 870</u>	<u>\$ 998</u>

The Association is obligated under various noncancellable operating leases for offices. At December 31, 2011 future minimum lease payments for all noncancellable operating leases are as follows:

2012	\$ 374
2013	358
2014	369
2015	380
2016	391
Subsequent years	<u>0</u>
Total minimum lease payments	<u>\$ 1,872</u>

Note 7 — Other Property Owned

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

	December 31,		
	2011	2010	2009
Gains (losses) on sale, net	\$ (496)	\$ (202)	\$ -
Carrying value unrealized gains (losses)	(2,412)	(741)	(72)
Operating income (expense), net	<u>(110)</u>	<u>(215)</u>	<u>(9)</u>
Gains (losses) on other property owned, net	<u>\$ (3,018)</u>	<u>\$ (1,158)</u>	<u>\$ (81)</u>

Note 8 — 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.

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 1.58 percent for LIBOR-based loans, 1.69 percent for Prime-based loans, and the weighted average remaining maturities were 3.0 years and 8.2 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 3.03 percent and the weighted average remaining maturity was 6.2 years at December 31, 2011. The weighted average interest rate on all interest-bearing notes payable was 2.37 percent and the weighted average remaining maturity was 5.0 years at December 31, 2011.

Variable rate and fixed rate notes payable represent approximately 40.60 percent and 59.40 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 9 — 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 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 7.00 percent and of core surplus as a percentage of risk adjusted assets of 3.50 percent. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2011 were 18.84 percent, 18.16 percent and 15.72 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 (\$5.00) per share.

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
B Common/Nonvoting	Yes	988	\$ 5
C Common/Voting	No	171,815	859
B Participation Certificates/Nonvoting	Yes	160	1
C Participation Certificates/Nonvoting	No	32,196	161
Total Capital Stock and Participation Certificates		205,159	\$ 1,026

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 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. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

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 all 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 that minimum capital standards established by the FCA and the Board are met.

At December 31, 2011, allocated members' equity consisted of \$11,359 of qualified surplus, \$20,655 of nonqualified allocated surplus and \$1,169 of nonqualified retained surplus. Nonqualified distributions are tax deductible only when redeemed.

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 and 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.

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. No patronage distribution was declared in 2011, 2010, or 2009.

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:

- a) **First**, Assistance Preferred Stock issued and outstanding (if any);
- b) **Second**, allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;
- c) **Third**, allocated surplus evidenced by qualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;
- d) **Fourth**, Class A Common and Class B Common Stock, Class C Common Stock, Class E Common Stock, Class C Participation Certificates and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;
- e) **Fifth**, Class A Preferred and Class D Preferred Stock issued and outstanding, if any.

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:

- a) **First**, to the holders of Class A Preferred and Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;
- b) **Second**, to the holders of Class A Common, Class B Common, Class C Common Stock, Class E Common Stock, and Class B Participation Certificates and Class C Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificate then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
- c) **Third**, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
- d) **Fourth**, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
- e) **Fifth**, in so far as practicable, all unallocated surplus issued after April 15, 1999, shall be distributed to Patrons of the Association from the period beginning April 15, 1999, through the date of liquidation, on a patronage basis; and

- f) *Sixth*, any remaining assets of the Association after such distributions 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.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made pro rata 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 \$(12), \$(8), and \$(4) in 2011, 2010 and 2009, respectively, due to FASB guidance on employers' accounting for defined benefit pension and other postretirement plans (see Note 11 for further information).

Note 10 — Income Taxes

At December 31, 2011, 2010 and 2009, the Association recorded no provision or benefit for federal or state income taxes.

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	\$ (1,893)	\$ 305	\$ 394
Effect of non-taxable FLCA subsidiary	647	(2,585)	(2,124)
Patronage distributions	-	2	(5)
Change in valuation allowance	1,372	2,511	1,905
Other	(126)	(233)	(170)
Provision (benefit) for income taxes	\$ -	\$ -	\$ -

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

	December 31,		
	2011	2010	2009
Deferred income tax assets:			
Allowance for loan losses	\$ 1,475	\$ 945	\$ 1,142
Net operating loss – carryforward	5,701	4,860	2,080
Nonaccrual loan interest	520	510	587
Gross deferred tax assets	7,696	6,315	3,809
Less: valuation allowance	(7,654)	(6,282)	(3,771)
Gross deferred tax assets, net of valuation allowance	42	33	38
Deferred income tax liabilities:			
Loan origination fees	(42)	(33)	(38)
Gross deferred tax liability	(42)	(33)	(38)
Net deferred tax asset (liability)	\$ -	\$ -	\$ -

At December 31, 2011, deferred income taxes have not been provided by the Association on approximately \$1.2 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 \$7,654, \$6,282 and \$3,771 during 2011, 2010 and 2009, respectively. 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 2007 and forward.

Note 11 — 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 Association 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%	\$865	\$986	\$1,142	2.18%	2.39%	2.43%
AgFirst Farm Credit Cash Balance Retirement Plan	81.77%	115.95%	145.01%	\$27	\$14	\$27	3.24%	3.02%	3.04%

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%	\$149	\$144	\$133	2.51%	2.45%	2.31%

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 \$1,102 for 2011, \$1,105 for 2010, and \$1,396 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 \$205 for 2011, \$178 for 2010, and \$177 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 \$154, \$143, and \$136 for the years ended December 31, 2011, 2010, and 2009, respectively.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these

amounts are subsequently recognized as components of net periodic benefit costs over time. For 2011, 2010, and 2009, \$12, \$8 and \$4 has been recognized as a net debit to AOCI to reflect these elements.

The supplemental retirement plan is unfunded and had a projected benefit obligation of \$285 and a net under-funded status of \$285 at December 31, 2011. Net periodic pension cost for 2011 was \$15. Assumptions used to determine the projected benefit obligation as of December 31, 2011 included a discount rate of 5.20 percent and a rate of compensation increase of 4.50 percent.

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 12 — 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 gross loans to such persons at December 31, 2011 amounted to \$60,820. During 2011, \$4,330 of new loans were made and repayments totaled \$6,963. Due to portfolio management policies and internal hold limits, the Association does not hold the entire loan balance and sells loan participations to AgFirst and other Farm Credit Institutions. The net credit risk exposure to the Association on these loans was \$9,369 at December 31, 2011 with \$3,735 of new net loans and \$4,209 of net repayments made during 2011. In the opinion of management, none of these loans outstanding at December 31, 2011 involved more than a normal risk of collectability, except as described below.

Production and intermediate term loans totaling \$51,763 gross and \$4,650 net at December 31, 2011 to one director of the Association, L. Baylis Carnes, III through two corporate entities, were classified OAEM due to more than a normal risk of collectability as determined by the Association. This classification of OAEM was the result of declining profitability and corresponding debt repayment capacity. These loans are current and secured by real estate. The largest outstanding balance on these loans during 2011 was \$53,206 gross and \$4,780 net and the balance outstanding at January 31, 2012 was \$51,658 gross and \$4,641 net.

Note 13 — 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, \$51,393 of commitments to extend credit and \$2,019 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 \$4,081 of standby letters of credit, with expiration dates ranging from January 14, 2012 to May 27, 2016. The maximum potential amount of future payments the Association may be required to make under these existing guarantees is \$4,081.

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 \$18 and was included in other liabilities.

Note 14 — 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 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 December 31, 2011 consist of assets held in trust funds related to a supplemental retirement plan. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at December 31, 2011.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities 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 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			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in trust funds	\$ 133	\$ –	\$ –	\$ 133
Total Assets	\$ 133	\$ –	\$ –	\$ 133

Liabilities:				
Standby letters of credit	\$ –	\$ –	\$ 18	\$ 18
Total Liabilities	\$ –	\$ –	\$ 18	\$ 18

	December 31, 2010			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in trust funds	\$ 151	\$ –	\$ –	\$ 151
Total Assets	\$ 151	\$ –	\$ –	\$ 151

Liabilities:				
Standby letters of credit	\$ –	\$ –	\$ 61	\$ 61
Total Liabilities	\$ –	\$ –	\$ 61	\$ 61

	December 31, 2009			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in trust funds	\$ 159	\$ –	\$ –	\$ 159
Total Assets	\$ 159	\$ –	\$ –	\$ 159

Liabilities:				
Standby letters of credit	\$ –	\$ –	\$ 97	\$ 110
Total Liabilities	\$ –	\$ –	\$ 97	\$ 110

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	\$ 61
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases	-
Sales	-
Issuances	-
Settlements	(43)
Transfers in and/or out of level 3	-
Balance at December 31, 2011	<u>\$ 18</u>

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 97
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(36)
Transfers in and/or out of level 3	-
Balance at December 31, 2010	<u>\$ 61</u>

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 110
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(13)
Transfers in and/or out of level 3	-
Balance at December 31, 2009	<u>\$ 97</u>

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.

	December 31, 2011				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 8,812	\$ 8,812	\$ (6,276)
Other property owned	\$ -	\$ -	\$ 3,604	\$ 3,604	\$ (2,908)
	December 31, 2010				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 7,020	\$ 7,020	\$ (9,296)
Other property owned	\$ -	\$ -	\$ 6,876	\$ 6,876	\$ (943)

	December 31, 2009				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 19,589	\$ 19,589	\$ (7,254)
Other property owned	\$ -	\$ -	\$ 1,954	\$ 1,954	\$ (72)

Note 15 — 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	\$ 512	\$ 512	\$ 13	\$ 13
Loans, net of allowance	\$ 332,188	\$ 334,910	\$ 371,575	\$ 367,562
Accrued interest receivable	\$ 1,614	\$ 1,614	\$ 1,735	\$ 1,735
Investment securities	\$ 47,285	\$ 48,038	\$ 45,476	\$ 45,946
Assets held in trust funds	\$ 133	\$ 133	\$ 151	\$ 151
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 330,129	\$ 332,424	\$ 369,984	\$ 368,102

	December 31, 2009	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	\$ 61	\$ 61
Loans, net of allowance	\$ 364,965	\$ 368,361
Accrued interest receivable	\$ 1,819	\$ 1,819
Investment securities	\$ 49,648	\$ 50,057
Assets held in trust funds	\$ 159	\$ 159
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	\$ 364,296	\$ 366,737

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:** Fair value is primarily based upon prices obtained from a third party valuation service.
- 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 5, 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 3.23 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 \$307 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. **Assets Held in Trust Funds:** See Note 14 for discussion of estimation of fair value for this instrument.

Note 16 — 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	\$ 2,442	\$ 2,479	\$ 2,516	\$ 2,518	\$ 9,955
Provision for (reversal of allowance for) loan losses	3,138	1,143	1,121	4,800	10,202
Noninterest income (expense), net	(814)	(1,043)	(2,396)	(1,067)	(5,320)
Net income (loss)	\$ (1,510)	\$ 293	\$ (1,001)	\$ (3,349)	\$ (5,567)

	2010				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,237	\$ 2,126	\$ 2,276	\$ 2,380	\$ 9,019
Provision for (reversal of allowance for) loan losses	2,155	1,470	2,380	2,812	8,817
Noninterest income (expense), net	365	563	(491)	258	695
Net income (loss)	\$ 447	\$ 1,219	\$ (595)	\$ (174)	\$ 897

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,607	\$ 2,389	\$ 2,283	\$ 2,237	\$ 9,516
Provision for (reversal of allowance for) loan losses	1,890	2,135	1,200	2,190	7,415
Noninterest income (expense), net	(327)	(304)	(545)	234	(942)
Net income (loss)	\$ 390	\$ (50)	\$ 538	\$ 281	\$ 1,159

Note 17 – Subsequent Events

The Bank 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.