Quarterly Report

Second Quarter 2012

AgFirst
Farm Credit Bank

SECOND QUARTER 2012

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2012 quarterly report of AgFirst Farm Credit Bank, 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.

M. Wayne Lambertson
Chairman of the Board

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

August 8, 2012

Report on Internal Control Over Financial Reporting

The Bank'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 Bank's 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 Bank's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Bank, (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 Bank, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its Financial Statements.

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2012. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

August 8, 2012

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three and six month periods ended June 30, 2012. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2011 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, neither the three nor the six months results of operations may be indicative of an entire year due to the seasonal nature of a portion of AgFirst's business.

FORWARD-LOOKING INFORMATION

Certain sections of this quarterly report contain 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 AgFirst's expectations and predictions due to a number of risks and uncertainties, many of which are beyond AgFirst's control. These risks and uncertainties include, but are not limited to:

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

FINANCIAL CONDITION

Loan Portfolio

AgFirst's loan portfolio consists primarily of direct loans to District Associations (Direct Notes), loan participations/syndications purchased, Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to Other Financing Institutions (OFIs) as shown below:

AgFirst Loan Portfolio

(dollars in thousands)	June 30, 2012		December 31, 2011		June 30, 2011	
Direct Notes	$ 13,936,560	69.73%	$ 14,094,384	69.94%	$ 14,552,923	70.71%
Participations/Syndications purchased, net	3,814,432	19.09	3,880,559	19.25	3,925,227	19.07
Correspondent Lending	2,219,141	11.10	2,171,873	10.78	2,085,806	10.14
Loans to OFIs	15,650	0.08	5,250	0.03	16,000	0.08
Total	$ 19,985,783	100.00%	$ 20,152,066	100.00%	$ 20,579,956	100.00%

Total loans outstanding were $19.986 billion at June 30, 2012, a decrease of $166.3 million, or 0.83 percent, compared to total loans outstanding at December 31, 2011. Loan volume continues to be impacted by the slow recovery of the general economy, which has affected the Bank's and District Associations' current and prospective customers in a number of ways, including fluctuating demand and prices for certain agricultural products and lower value for real estate and other investment holdings of some borrowers. These conditions have been detrimental to some of the District's customers. As a result, some customers have reduced production and taken a deliberate approach to expansion plans, in order to preserve their investment and working capital. This remains most prevalent in the meat and timber sectors. Improved liquidity positions for grain farmers due to high grain prices have reduced their demand for credit. However, present drought conditions for portions of the District are negatively affecting current year crop production. The resolution of adversely classified loans has impacted loan volume as loans are charged down to their fair value when transitioned to nonaccrual status, liquidated through voluntary or foreclosure sales, or moved to other property owned. Management also targeted decreases for certain low performing portfolio sectors. Each of these factors has contributed to the lower loan demand throughout the District. Future loan demand is very difficult to predict; however, it is expected to remain weak for the remainder of 2012.

Credit Quality

Credit quality also has been challenged by the slow recovery after a period of prolonged weakness in the economy. While there has been improvement in the acceptable classification, there has also been additional migration to the substandard classification as can be seen in the following table. For a further discussion of the increase in the substandard classification, see the *Direct Notes* section below.

AgFirst Total Loan Portfolio Credit Quality as of:

Classification	June 30, 2012	December 31, 2011	June 30, 2011
Acceptable	88.36%	87.09%	86.35%
OAEM *	5.00%	9.79%	10.59%
Substandard	6.64%	3.12%	3.06%
Doubtful	0.00%	0.00%	0.00%

**Other Assets Especially Mentioned*

Certain commodity groups continue to be more adversely affected than others in the current economic cycle. Housing-related industries, such as building products, timber, sawmills, landscape nurseries, and sod operations remained stressed. Also, many customers in the District rely on off-farm income, which has been negatively impacted by weakness in the general economy. Improvement in these segments is dependent on sustained improvement in such general economic factors as employment levels and housing market activity.

Loan portfolio credit quality has been negatively impacted by lower real estate values in certain geographic areas within the Bank's chartered territory, particularly in Florida. Other areas of the District experienced a less severe reduction, although sales continue to be slow throughout the District. While increasing real estate values are not being observed in the stressed geographic areas, most distressed property sales are occurring at or near appraised values, indicating that values have stabilized. Production farm land has maintained its value better than residential and investment real estate.

The beef and swine industries have experienced a cycle of profitable results. Profitability was primarily achieved through reduction of supply, which led to higher prices. Higher grain and energy costs were offset by higher meat prices for both beef and swine producers. Many chicken integrators experienced losses and cash flow problems in 2011 due to higher input prices and oversupply, but are currently profitable. Margins for dairy farmers have narrowed, but, in general, remain sufficient to service debt. The future volatility of grain prices remains a primary concern to the meat, dairy, and ethanol sectors. Beef and pork companies continue to project adequate results in 2012. The prospects of the meat complex remain reliant, however, on maintaining strong meat prices to cover higher and volatile feed costs. Feed prices are projected to increase based on significant drought problems in many portions of the corn and soybean production regions. Significant increases in grain prices may challenge the producers in the meat complex in late 2012 and 2013.

Other major segments of the District loan portfolio continued to perform well, including sugar, citrus, cotton, and row crops. High commodity prices for grains were very beneficial to row crop farmers. However, some areas are experiencing high temperatures and drought conditions. These negative crop conditions have led to lower grain production and higher grain prices. Row crop farmers in the drought affected areas could see crop losses; however, crop insurance protection will minimize the resulting financial losses.

Slow economic growth will have an impact on credit quality for some time. Although credit quality is generally stabilizing, it will take time to fully resolve some problem assets due to their dependency on general economic conditions including employment, the housing market, and real estate values.

Direct Notes

AgFirst's primary business is to provide funding, operational support, and technology services to District Associations. Each Association, in addition to the Bank, is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (FCA). AgFirst has a revolving line of credit, referred to as a Direct Note, in place with each of the District Associations. Each of the Associations funds its lending and general corporate activities primarily by borrowing under its Direct Note. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations. Each GFA contains minimum borrowing base margin, capital, and earnings requirements that must be maintained by the Association.

At June 30, 2012, the total principal amount outstanding under Direct Notes was $13.937 billion, a decrease of $157.8 million, or 1.12 percent, compared to December 31, 2011. Borrower payment seasonality and Bank patronage payments in addition to the reasons discussed in the *Loan Portfolio* section above were the primary reasons for the decline in Direct Note volume from December to June.

Credit quality statistics for the Direct Note portfolio are shown in the following chart:

Direct Note Credit Quality as of:			
Classification	**June 30, 2012**	**December 31, 2011**	**June 30, 2011**
Acceptable	86.38%	85.65%	85.28%
OAEM *	5.55%	11.38%	12.59%
Substandard	8.07%	2.97%	2.13%
Doubtful	0.00%	0.00%	0.00%

**Other Assets Especially Mentioned*

As of June 30, 2012, fourteen of the twenty District Associations' Direct Notes, representing 86.38 percent of the Direct Note portfolio, were classified acceptable. Three of the remaining Direct Notes, representing 5.55 percent of the portfolio, were classified as Other Assets Especially Mentioned (OAEM) and three of the Direct Notes, representing 8.07 percent of the portfolio, were classified as substandard (adverse). None of the Direct Notes, including those classified as substandard (adverse), are considered impaired. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan. No allowance has been recorded for Direct Notes. All assets of the various Associations are pledged as collateral for their respective Direct Notes. In the opinion of management, all Association Direct Notes are adequately collateralized. The risk funds of an Association, including both capital and the allowance for loan losses, also protect the interest of the Bank should a Direct Note default. At June 30, 2012, total assets of the three Associations with Direct Notes classified as substandard were $1.478 billion and their total risk funds were $343.3 million. Also at June 30, 2012, total substandard loans, including accrued interest, of these three Associations were $251.3 million compared to their total substandard Direct Notes of $1.127 billion. Presently, collections of the full Direct Note amounts due for these three Associations are expected in accordance with the contractual terms of the debt arrangements.

As of June 30, 2012, four Associations were in violation of the earnings covenant under the GFA. The Bank allowed these Associations to operate under special credit agreements (SCAs).

As of June 30, 2012, four District Associations, with combined assets of approximately $1.847 billion, were operating under written supervisory agreements with the FCA. Those agreements require the District Associations to take corrective actions with respect to certain areas of their operations, including, as applicable, capital, portfolio management, asset quality, management succession, and board governance. These enforcement actions are not expected to have a significant impact on the Bank's or District's financial condition or results of operations.

Participations/Syndications

AgFirst has an active Capital Markets Unit that purchases and sells loan participations and syndications. As of June 30, 2012, the participations/syndications portfolio totaled $3.814 billion, a decrease of $66.1 million, or 1.70 percent, from December 31, 2011. As with the Direct Notes, borrower demand is anticipated to remain moderate in 2012.

AgFirst employs a number of management techniques to limit credit risk, including underwriting standards, limits on the amounts of loans purchased from a single originator, and maximum hold positions to a single borrower and commodity. Although the participations/syndications portfolio is comprised of a small number of relatively large loans, it is diversified both geographically and on a commodity basis. Concentration risk throughout the portfolio is mitigated through established maximum hold positions to a single borrower and to a single commodity. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

Improving credit quality statistics for the participations/syndications portfolio are shown in the following chart:

Participations/Syndications Credit Quality as of:			
Classification	**June 30, 2012**	**December 31, 2011**	**June 30, 2011**
Acceptable	88.87%	85.20%	83.19%
OAEM *	5.82%	9.38%	8.71%
Substandard	5.31%	5.42%	8.09%
Doubtful	0.00%	0.00%	0.01%

**Other Assets Especially Mentioned*

Correspondent Lending

AgFirst also maintains a Correspondent Lending Unit, which consists primarily of first lien residential mortgages. As of June 30, 2012, the correspondent lending portfolio totaled $2.219 billion. From December 31, 2011 to June 30, 2012, this portfolio increased $47.3 million, or 2.18 percent.

Essentially all loans in the correspondent lending portfolio are guaranteed by the Federal National Mortgage Association (Fannie Mae) and/or the Federal Agricultural Mortgage Corporation (Farmer Mac), thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par. At June 30, 2012, 99.81 percent of the correspondent lending portfolio was classified as Acceptable and 0.19 percent was classified as OAEM.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank at June 30, 2012 were $73.4 million compared to $85.2 million at December 31, 2011. Nonaccrual loans decreased $11.8 million during the six months ended June 30, 2012, due primarily to repayments of $33.9 million, charge-offs of uncollectible balances of $3.4 million (composed primarily of charge-offs in the forestry segment), and transfers to other property owned of $3.1 million. Offsetting these decreases were $27.8 million of loan balances transferred to nonaccrual status. The ten largest nonaccrual borrower relationships accounted for 66.73 percent of the total nonaccrual balance. At June 30, 2012, total nonaccrual loans were primarily classified in the forestry (30.89 percent of the total), nursery/greenhouse (22.98 percent), and processing (11.49 percent) segments. Some of these nonaccrual loans are secured by real estate, which has been negatively impacted by the current economic environment as discussed previously. Nonaccrual loans were 0.37 percent and 0.42 percent of total loans outstanding at June 30, 2012 and December 31, 2011, respectively.

Troubled Debt Restructurings

A troubled debt restructuring occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower’s ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. Troubled debt restructurings decreased $37.1 million since December 31, 2011 and totaled $32.7 million at June 30, 2012, comprised of $8.1 million of accruing restructured loans and $24.5 million of nonaccruing restructured loans. Restructured loans were primarily in forestry (41.99 percent of the total), processing (26.32 percent), and other real estate (14.07 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $15.9 million since December 31, 2011 and totaled $28.3 million at June 30, 2012. The decrease was due to OPO disposals of $15.7 million and net write-downs of $3.7 million. Disposals primarily included two land holdings totaling $12.9 million. Net write-downs were comprised primarily of two land holdings totaling $3.3 million. Offsetting this decrease were transfers from nonaccrual of $3.1 million. The largest OPO holding at June 30, 2012, which was a parcel of land, was $8.0 million (28.31 percent of the total).

Allowance for Loan Losses

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was $28.0 million at June 30, 2012, as compared with $27.7 million at December 31, 2011. Activity within the allowance for the six months ended June 30, 2012 included recoveries of $6.6 million, offset by net loan charge-offs of $3.4 million, as their uncollectability became more measurable and apparent during the six month period. Also, there was a net provision reversal of the allowance for loan losses of $2.9 million. Charge-offs were related primarily to the forestry ($2.0 million) segment. Recoveries were related primarily to the forestry ($2.7 million) and processing ($2.5 million) segments. The allowance at June 30, 2012 included specific reserves of $11.5 million (41.02 percent of the total) and general reserves of $16.5 million (58.98 percent). None of the allowance relates to the Direct Note portfolio. The total allowance at June 30, 2012 was comprised primarily of reserves for the nursery/greenhouse (21.86 percent), non-farm income dependent (17.84 percent), and forestry (17.74 percent) segments. Declining real estate values impacted charge-offs and reserves in many of these loan segments. See Note 3, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding increases to the allowance from provision expense.

Liquidity and Funding Sources

One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. Along with normal cash flows associated with lending operations, AgFirst has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments, including its available-for-sale portfolio. The Bank also maintains several lines of credit with commercial banks, as well as securities repurchase agreement facilities.

The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. However, the Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America. However, concerns regarding the government's borrowing limit and budget imbalances have further highlighted the risks to the System relating to the U.S. fiscal situation. These risks include the implied link between the credit rating of the System and the U.S. Government given the System's status as a GSE.

AgFirst's primary source of liquidity comes from its ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the System banks. AgFirst continually raises funds to support its mission to provide credit and related services to the rural and agricultural sectors, to repay maturing Systemwide Debt Securities, and to meet other obligations. As a GSE, AgFirst has access to the nation's and world's debt and capital markets. This access has provided AgFirst with a dependable source of competitively priced debt that is critical to support its mission. In August 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating for the U.S. to AA+ from AAA, and affirmed the A-1+ short-term rating. Their outlook on the long-term rating of the U.S. remained negative. Concurrently with such actions, Standard & Poor's Ratings Services lowered the long-term debt rating for the System to AA+ from AAA; however, the A-1+ short-term rating was affirmed, while the outlook on the long-term debt rating of the System remained negative. Also in August 2011, Moody's Investors Service and Fitch Ratings affirmed the Aaa and AAA ratings of the U.S. and affirmed the System's Aaa and AAA long-term debt rating and short-term debt as P-1 and F-1. However, Moody's Investors Service did change the ratings outlook of the U.S. and the System to negative. Similarly, in November 2011, Fitch Ratings, Inc. changed its outlook of the U.S. and the System from "stable" to "negative."

These and any future negative changes to the System's credit ratings and/or outlook could increase borrowing costs and limit access to the debt capital markets. Any of these changes could also reduce earnings and have a material adverse effect on liquidity, ability to conduct normal business operations, and financial condition and results of operations. However, AgFirst anticipates continued access to funding necessary to support the District's and Bank's needs. At June 30, 2012, AgFirst had $26.465 billion in total debt outstanding compared to $27.086 billion at December 31, 2011. Total interest-bearing liabilities decreased primarily due to the decrease in loan volume and liquidity investments as discussed in this report which reduced funding requirements.

The Bank has securities repurchase agreement facilities with three commercial banks that range in terms from overnight to nine months. AgFirst also has overnight Fed Funds lines of credit with two commercial banks. During the second quarter of 2012, AgFirst discontinued the $150.0 million unsecured committed line of credit facility from its primary commercial depository bank.

Cash and cash equivalents, which decreased $104.6 million from December 31, 2011 to a total of $1.197 billion at June 30, 2012, consist primarily of cash on deposit and money market securities that are short term in nature (from overnight maturities to maturities that range up to 90 days). Money market securities must carry one of the two highest short-term ratings as designated from a Nationally Recognized Statistical Rating Organization (NRSRO).

Investment securities totaled $7.371 billion, or 25.53 percent of total assets at June 30, 2012, compared to $7.780 billion, or 26.30 percent, as of December 31, 2011. Investment securities decreased $409.3 million (5.26 percent), compared to December 31, 2011, as management maintained the investment securities portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

As of June 30, 2012, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require a liquidity policy that establishes a minimum "coverage" level of 90 days. "Coverage" is defined as the number of days that maturing debt could be funded with eligible available-for-sale investments and cash and cash equivalents maintained by the Bank. At June 30, 2012, AgFirst's coverage was 218 days, compared to 205 days at December 31, 2011. At June 30, 2012, the Bank's cash and cash equivalents position provided 24 days coverage and investment securities fully backed by the U.S. government provided an additional 194 days of coverage. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation of 218 days.

Investment securities classified as being available-for-sale totaled $6.637 billion at June 30, 2012. Available-for-sale investments at June 30, 2012 included $4.807 billion in Government National Mortgage Association (GNMA) securities backed by the full faith and credit of the U.S. Government, $1.589 billion in Agency mortgage backed securities, $209.3 million in non-agency collateralized mortgage obligations (CMOs), and $31.9 million in asset-backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

AgFirst also maintains a portfolio of investments that are not held for liquidity purposes and are accounted for as a held-to-maturity portfolio. These investments are authorized by FCA Regulations that allow investments in Farmer Mac securities and also in specific investments approved by the FCA as Mission Related Investments. The vast majority of this portfolio is comprised of Mission Related Investments for a program to purchase Rural Housing Mortgage-Backed Securities, which when combined with eligible rural home loans, must not exceed 15.00 percent of total outstanding loans. Investment securities classified as being held-to-maturity totaled $734.1 million at June 30, 2012.

The FCA considers non-agency asset-backed or mortgage-backed investment securities ineligible if they fall below the top category (AAA/Aaa) credit rating by the NRSROs. The Bank must obtain specific approval from the FCA to continue to hold an ineligible security. For each of these investment securities in the Bank's portfolio at June 30, 2012 rated below AAA/Aaa (total fair value of $231.2 million and amortized cost of $287.6 million), the Bank has developed and submitted plans for approval by the FCA that permit the Bank to continue to hold the securities. The FCA has approved, with conditions, the Bank's plans for all but seven investments that have recently become ineligible. The Bank has submitted plans to hold these seven ineligible securities and is awaiting approval from the FCA. Management is of the opinion that holding these securities will result in a higher return for the Bank than liquidating them. Other-than-temporary credit related impairment of $293 thousand was recognized during the second quarter of 2012 on two of these recently ineligible securities.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain Bank ineligible securities are risk weighted between 50 percent and 200 percent instead of 20 percent which is applicable to eligible non-agency securities. These ineligible securities had a fair value of $104.2 million and amortized cost of $128.4 million at June 30, 2012. Other ineligible securities must be deducted completely from both capital and risk adjusted assets, based on the extent of their below investment grade rating from NRSROs. These securities had a fair value of $56.8 million and amortized cost of $74.1 million at June 30, 2012. The fair value and amortized cost of ineligible non-agency reperformer CMO securities covered by Federal Housing Administration insurance and therefore risk weighted at the standard 20 percent, was $70.2 million and $85.1 million, respectively, at June 30, 2012. See the *Capital Resources* section below for further discussion of the regulatory ratios. In addition, all ineligible investments, except non-agency reperformer CMOs which meet certain conditions, are excluded from liquidity coverage as defined above.

Net unrealized gains related to the available-for-sale securities were $148.5 million at June 30, 2012, compared to $132.8 million at December 31, 2011. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Additional analysis for each security not rated in the top category by the NRSROs is performed using a cash flow model with key assumptions and performance factors which may include credit default rate, prepayment rate, and loss severity. The objective is to quantify future possible loss of principal or interest due on each identified security. The credit enhancements specific to the individual security are considered as appropriate, and may include monoline credit insurance, subordination, over-collateralization, and excess interest spread. Asset-backed securities covered by insurers are analyzed with insurance and without, to quantify the extent of reliance on their guarantees. Based on the results of all analyses, the Bank recognized other-than-temporary credit related impairment of $3.2 million on asset-backed securities and non-agency CMOs in its portfolio for the six months ended June 30, 2012, which was included in Net Other-Than-Temporary Impairment Losses on Investments in the Statements of Income. Credit 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. Payment shortfalls, net of insurance recoveries, on asset-backed securities have totaled only $18.2 million life to date ($1.7 million in 2012), compared to credit related impairment charges life to date of $39.5 million (none in 2012). Credit related impairment charges on non-agency CMOs have totaled $18.0 million life to date ($3.2 million in 2012). Payment shortfalls on non-agency CMOs totaled $892 thousand life to date ($581 thousand in 2012). See Note 2, *Investment Securities*, in the Notes to the Financial Statements for further information.

Following the market disruptions of 2008, the Bank began considering both a price, or “mark,” provided by a third party pricing service and a value determined using the results of a modeling process for purposes of estimating the fair values of securities in the asset-backed and non-agency CMO portfolios, as well as the resulting unrealized gain/loss impact through AOCI. Over time, the valuations received from the pricing service have converged toward a more reasonable correlation with our understanding of the underlying credit factors and financial metrics of these securities, though the markets remain inactive. Management believes that values supplied by the third party pricing service are currently sufficiently consistent with GAAP and that it is appropriate to return to the methodology used prior to 2009; that being the use of third party pricing alone to reflect the fair values of these portfolios in financial reporting. This methodology change resulted in a decrease of $13.8 million for the total combined fair value of these two portfolios at June 30, 2012.

The Bank reviews and periodically discusses with the third party pricing service the assumptions used in their pricing models for the asset-backed and non-agency CMO securities impacted by inactive trading or distressed sales. This process ensures that, when relevant observable inputs are not available, the fair value reported for each security reflects the price expected to be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date.

Capital Resources

Total shareholders’ equity increased $155.3 million (7.22 percent) from December 31, 2011 to a total of $2.305 billion at June 30, 2012. This increase is primarily attributed to 2012 unallocated retained earnings from net income of $253.2 million, increases of $15.6 million in net unrealized gains during 2012 on investments available-for-sale, and a change in the fair value of derivatives of $1.2 million. Offsetting the increases were dividends paid on preferred stock of $11.5 million, patronage distribution of $11.1 million, stock/ participation certificate net retirements of $7.7 million, and the redemption of preferred stock referenced below.

During the first half of 2012, the Bank repurchased, through privately negotiated transactions, and cancelled Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $118.6 million. The effect of the repurchases on shareholders’ equity was to reduce preferred stock outstanding by $118.6 million and to record $34.1 million of additional paid-in-capital.

Regulatory Ratios

AgFirst's regulatory ratios are shown in the following table:

	Regulatory Minimum	6/30/12	12/31/11	6/30/11
Permanent Capital Ratio	7.00%	21.58%	24.27%	22.32%
Total Surplus Ratio	7.00%	21.55%	24.24%	22.29%
Core Surplus Ratio	3.50%	17.90%	17.08%	14.68%
Net Collateral Ratio*	103.00%	107.23%	106.49%	107.43%

* *The regulatory minimum net collateral ratio was 104.00% previous to the redemption of the Mandatorily Redeemable Cumulative Preferred Stock on December 15, 2011.*

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. The total surplus ratio is calculated by dividing total surplus by a risk-adjusted asset base and the core surplus ratio is calculated by dividing core surplus by a risk-adjusted asset base. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. Unlike the permanent capital, total surplus and core surplus ratios, the net collateral ratio does not incorporate any risk-adjusted weighting of assets. The net collateral ratio is calculated by dividing the Bank's collateral, as defined by FCA regulations, by total liabilities. The permanent capital, total surplus, and core surplus ratios are calculated using three-month average daily balances and the net collateral ratio is calculated using period end balances.

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios.

The Bank's permanent capital and total surplus ratios decreased at June 30, 2012 compared to December 31, 2011, primarily as a result of the reduction in preferred stock discussed above, which impacted the June 30, 2012 ratios, and the redemption of the $225.0 million of Mandatorily Redeemable Preferred Stock on December 15, 2011 which minimally impacted the December 31, 2011 ratios but fully impacted the June 30, 2012 ratios.

The Bank's core surplus ratio increased at June 30, 2012 as compared to December 31, 2011. Subsequent to the redemption of the $225.0 million of Mandatorily Redeemable Cumulative Preferred Stock (which was previously excluded from the core surplus ratio) on December 15, 2011, the FCA notified AgFirst that the October 2003 issuance of $150.0 million of Perpetual Non-Cumulative Preferred Stock could be included in core surplus subject to certain potential limitations. Prior to December 15, 2011, the $150.0 million Perpetual Non-Cumulative Preferred Stock was not included in core surplus. This inclusion minimally impacted the December 31, 2011 ratio but fully impacted the June 30, 2012 ratio, which contributed to the higher core surplus ratio at June 30, 2012.

The Bank's net collateral ratio increased at June 30, 2012 compared to December 31, 2011 as the proportion of collateral funded by equity increased. Therefore, the proportion of collateral funded by total liabilities decreased, resulting in a higher net collateral ratio at June 30, 2012.

RESULTS OF OPERATIONS

Net income for the three months ended June 30, 2012 was $130.2 million, compared to $105.1 million for the three months ended June 30, 2011, an increase of $25.1 million, or 23.88 percent. Net income for the six months ended June 30, 2012 was $253.2 million, compared to $208.0 million for the six months ended June 30, 2011, an increase of $45.2 million, or 21.73 percent.

Key results of operations comparisons

	Annualized for the six months ended June 30, 2012	For the year ended December 31, 2011	Annualized for the six months ended June 30, 2011
Return on average assets	1.78%	1.29%	1.40%
Return on average shareholders' equity	22.84%	18.14%	20.88%
Net interest income as a percentage of average earning assets	2.25%	2.09%	2.05%
Net (charge-offs) recoveries to average loans	0.032%	(0.329)%	(0.116)%

Net Interest Income

Net interest income for the three months ended June 30, 2012 was $151.8 million compared to $148.3 million for the same period of 2011, an increase of $3.5 million or 2.39 percent. For the six months ended June 30, 2012, net interest income was $308.1 million, compared to $292.5 million for the same period of 2011. The net interest margin was 2.22 percent and 2.25 percent in the current year three and six month periods, respectively, an improvement of 15 basis points and 20 basis points over the same periods of 2011. Spreads improved for several reasons, but primarily resulted from called debt being replaced by new debt issued at lower interest rates, decreasing funding costs. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will likely diminish. Net interest income resulting from the change in balance sheet volume decreased slightly due to lower loan volume as previously discussed.

The following table illustrates the changes in net interest income:

	For the three months ended June 30, 2012 vs. June 30, 2011			For the six months ended June 30, 2012 vs. June 30, 2011		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	$ (6,203)	$ (11,300)	$ (17,503)	$ (13,821)	$ (15,948)	$ (29,769)
Investments & Cash Equivalents	(2,973)	175	(2,798)	(5,200)	2,061	(3,139)
Total Interest Income	$ (9,176)	$ (11,125)	$ (20,301)	$ (19,021)	$ (13,887)	$ (32,908)
Interest Expense:						
Interest-Bearing Liabilities	$ (4,026)	$ (19,820)	$ (23,846)	$ (8,164)	$ (40,279)	$ (48,443)
Changes in Net Interest Income	$ (5,150)	$ 8,695	$ 3,545	$ (10,857)	$ 26,392	$ 15,535

Provision for Loan Losses

AgFirst measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. For the three and six month periods ended June 30, 2012, there was a net reversal of provision expense of $174 thousand and $2.9 million, respectively. Net provision for loan losses was $19.4 million and $30.3 million for the three and six month periods ended June 30, 2011. For the three months ended June 30, 2012, the net reversal of loan loss expense of $174 thousand included provision expense of $8.6 million and loan loss reversals of $8.8 million ($6.8 million for specific reserves and $2.0 million for general reserves). Provision expense of $8.6 million was primarily for the nursery/greenhouse segment (60.50 percent of the total) and the citrus segment (19.02 percent). Loan loss reversals of $8.8 million were primarily for the processing segment (70.98 percent of the total) and the nursery/greenhouse segment (21.22 percent). For the six months ended June 30, 2012, the net reversal of loan loss expense of $2.9 million included provision expense of $10.3 million and loan loss reversals of $13.2 million ($11.0 million for specific reserves and $2.2 million for general reserves). Provision expense of $10.3 million was primarily for the nursery/greenhouse segment (50.41 percent of the total), the forestry segment (18.52 percent), and the citrus segment (15.85 percent). Loan loss reversals of $13.2 million were primarily for the processing segment (45.25 percent of the total), the forestry segment (25.29 percent), and the nursery/greenhouse segment (18.84 percent). See Note 3, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended June 30,**			**For the six months ended June 30,**		
(dollars in thousands)	**2012**	**2011**	**Increase/ (Decrease)**	**2012**	**2011**	**Increase/ (Decrease)**
Loan fees	$ 2,864	$ 2,740	$ 124	$ 5,228	$ 5,594	$ (366)
Gains (losses) from other property owned, net	(635)	664	(1,299)	(4,158)	(5,116)	958
Gains (losses) on investments, net	–	3,048	(3,048)	–	3,048	(3,048)
Net impairment losses on investments	(2,417)	(3,652)	1,235	(3,167)	(8,110)	4,943
Gains (losses) on sale of rural home loans, net	(101)	–	(101)	(101)	(86)	(15)
Patronage refunds from other Farm Credit Institutions	68	(39)	107	114	95	19
Insurance premium refund	10,363	–	10,363	10,363	–	10,363
Other noninterest income	398	1,019	(621)	3,432	2,556	876
Total noninterest income	$ 10,540	$ 3,780	$ 6,760	$ 11,711	$ (2,019)	$ 13,730

Noninterest income for the three months and six months ended June 30, 2012 increased $6.8 million and $13.7 million, respectively, compared to the corresponding periods in 2011. The increases for both periods were due primarily to the Bank's recording $10.4 million of insurance premium refunds during the second quarter of 2012 from the Farm Credit Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the FCSIC exceeding the secure base amount as defined by the Farm Credit Act.

The increase in losses from other property owned for the three month period ended June 30, 2012 compared to the corresponding period in the prior year resulted from the recognition in the second quarter of 2011 of a previously deferred $2.3 million gain from an ethanol plant sale in accordance with accounting guidance. Net losses from other property owned for the six months ended June 30, 2012 decreased $958 thousand primarily due to lower writedowns in 2012 as real estate values began to stabilize. See *Other Property Owned* section above.

Gains on investments of $3.0 million during 2011 were the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio.

Net impairment losses on investments decreased $1.2 million and $4.9 million for the three and six month periods ended June 30, 2012 as compared to the same periods in 2011. See discussion of 2012 credit related other-than-temporary impairment in the *Liquidity and Funding Sources* section above.

For the three months ended June 30, 2012 compared to the same period in 2011, other noninterest income decreased $621 thousand due primarily to a $1.0 million higher provision for unfunded commitments recorded during 2012. Other noninterest income increased $876 thousand for the six months ended June 30, 2012 primarily due to $1.3 million in insurance recoveries.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	**For the three months ended June 30,**			**For the six months ended June 30,**		
(dollars in thousands)	**2012**	**2011**	**Increase/ (Decrease)**	**2012**	**2011**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 10,929	$ 10,694	$ 235	$ 22,724	$ 21,762	$ 962
Occupancy and equipment	3,870	3,200	670	7,606	6,652	954
Insurance Fund premiums	1,075	1,328	(253)	2,145	2,692	(547)
Other operating expenses	6,579	5,674	905	12,057	10,660	1,397
Called debt expense	7,624	4,416	3,208	20,369	5,859	14,510
Correspondent lending servicing expense	2,253	2,222	31	4,556	4,487	69
Other noninterest expense	–	35	(35)	–	105	(105)
Total noninterest expense	$ 32,330	$ 27,569	$ 4,761	$ 69,457	$ 52,217	$ 17,240

Noninterest expense for the three months and six months ended June 30, 2012 increased $4.8 million and $17.2 million, respectively, compared to the corresponding periods in 2011. The increases for both periods were due primarily to the increase in called debt expense.

Concession or debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized concession is expensed. Called debt expense increased $3.2 million and $14.5 million for the three month and six month periods, respectively. Call options were exercised on bonds totaling $12.285 billion for the six months ended June 30, 2012 compared to $6.831 billion for the same period of 2011. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

The increase in salaries and employee benefits of $962 thousand for the six month period ended June 30, 2012 was due primarily to normal salary administration, increased employee benefit costs, and an increase in number of employees at June 30, 2012 compared to June 30, 2011.

Occupancy and equipment expense for the three and six month periods ended June 30, 2012 increased $670 thousand and $954 thousand compared to the corresponding periods in the prior year. These increases were due primarily to increases in software expense for various maintenance agreements and database management.

FCSIC premiums decreased minimally for the three and six month periods. The 2012 base annual premium rate is 5 basis points compared to the 2011 base annual premium rate of 6 basis points.

Other operating expenses for the three and six months ended June 30, 2012 increased $905 thousand and $1.4 million, respectively. The increases primarily resulted from additional consulting and professional fees required for system enhancements, which increased other operating expenses $620 thousand and $742 thousand for the three and six months ended June 30, 2012, respectively. The remainder of the increases in other operating expenses were comprised of numerous and varied expenses, none of which were individually significant.

Other noninterest expense consists of amortization of mandatorily redeemable preferred stock issuance costs, which fully amortized in May 2011.

DISTRICT MERGER ACTIVITY

Please refer to Note 10, *District Merger Activity*, in the Notes to the Financial Statements for information regarding merger activity in the District.

REGULATORY MATTERS

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

OTHER MATTERS

As previously announced in the 2011 Annual Report of AgFirst Farm Credit Bank, F. A. (Andy) Lowrey retired as AgFirst's Chief Executive Officer effective June 30, 2012. The Board of Directors appointed Leon T. (Tim) Amerson, AgFirst's President and Chief Operating Officer, as Chief Executive Officer and President effective July 1, 2012.

Gary L. Alexander resigned from the Board of Directors effective July 11, 2012.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, Reporting Manager, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank's website, *www.agfirst.com*. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Balance Sheets

(dollars in thousands)	June 30, 2012	December 31, 2011
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	**$ 1,196,955**	$ 1,301,569
Investment securities:		
Available for sale (amortized cost of $6,488,409 and $6,792,584 respectively)	**6,636,867**	6,925,410
Held to maturity (fair value of $800,056 and $928,053 respectively)	**734,099**	854,862
Total investment securities	**7,370,966**	7,780,272
Loans	**19,985,783**	20,152,066
Less: allowance for loan losses	**27,981**	27,714
Net loans	**19,957,802**	20,124,352
Accrued interest receivable	**75,199**	78,906
Investments in other Farm Credit System institutions	**65,805**	65,964
Premises and equipment, net	**13,180**	13,706
Other property owned	**28,296**	44,157
Due from associations	**8,315**	17,318
Other assets	**149,688**	151,262
Total assets	**$ 28,866,206**	$ 29,577,506
Liabilities		
Bonds and notes	**$ 26,464,757**	$ 27,086,148
Accrued interest and dividends payable	**42,672**	42,418
Patronage distribution payable	**—**	180,726
Other liabilities	**54,256**	118,944
Total liabilities	**26,561,685**	27,428,236
Commitments and contingencies (Note 5)		
Shareholders' Equity		
Perpetual preferred stock (Note 8)	**281,450**	400,000
Capital stock and participation certificates	**398,072**	405,767
Additional paid-in-capital (Note 8)	**34,100**	—
Retained earnings		
Allocated	**795**	858
Unallocated	**1,449,267**	1,218,648
Accumulated other comprehensive income (loss)	**140,837**	123,997
Total shareholders' equity	**2,304,521**	2,149,270
Total liabilities and equity	**$ 28,866,206**	$ 29,577,506

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

Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Interest Income				
Investment securities and other	**$ 46,857**	$ 49,655	**$ 95,487**	$ 98,626
Loans	**158,811**	176,314	**322,638**	352,407
Total interest Income	**205,668**	225,969	**418,125**	451,033
Interest Expense	**53,849**	77,695	**110,068**	158,511
Net interest income	**151,819**	148,274	**308,057**	292,522
Provision for (reversal of allowance for) loan losses	**(174)**	19,380	**(2,895)**	30,276
Net interest income after provision for (reversal of allowance for) loan losses	**151,993**	128,894	**310,952**	262,246
Noninterest Income				
Loan fees	**2,864**	2,740	**5,228**	5,594
Gains (losses) from other property owned, net	**(635)**	664	**(4,158)**	(5,116)
Gains (losses) on investments, net	**—**	3,048	**—**	3,048
Total other-than-temporary impairment losses on investments (Note 2)	**(21,156)**	(402)	**(21,995)**	(2,879)
Portion of loss recognized in other comprehensive income (loss) (Note 2)	**18,739**	(3,250)	**18,828**	(5,231)
Net other-than-temporary impairment losses on investments	**(2,417)**	(3,652)	**(3,167)**	(8,110)
Gains (losses) on sales of rural home loans, net	**(101)**	—	**(101)**	(86)
Patronage refunds from other Farm Credit institutions	**68**	(39)	**114**	95
Insurance premium refunds	**10,363**	—	**10,363**	—
Other noninterest income	**398**	1,019	**3,432**	2,556
Total noninterest income	**10,540**	3,780	**11,711**	(2,019)
Noninterest Expenses				
Salaries and employee benefits	**10,929**	10,694	**22,724**	21,762
Occupancy and equipment	**3,870**	3,200	**7,606**	6,652
Insurance Fund premiums	**1,075**	1,328	**2,145**	2,692
Other operating expenses	**6,579**	5,674	**12,057**	10,660
Called debt expense	**7,624**	4,416	**20,369**	5,859
Correspondent lending servicing expense	**2,253**	2,222	**4,556**	4,487
Other noninterest expense	**—**	35	**—**	105
Total noninterest expenses	**32,330**	27,569	**69,457**	52,217
Net income	**$ 130,203**	$ 105,105	**$ 253,206**	$ 208,010

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Net income	**$ 130,203**	$ 105,105	**$ 253,206**	$ 208,010
Other comprehensive income net of tax				
Unrealized gains (losses) on investments available for sale				
Other-than-temporarily impaired (Note 2)	**(18,675)**	3,523	**(18,478)**	2,018
Not other-than-temporarily impaired (Note 2)	**21,144**	59,962	**34,110**	44,508
Change in value of firm commitments - when issued securities (Note 7)	**555**	3,832	**1,210**	2,080
Employee benefit plans adjustments	**114**	78	**(2)**	7
Other comprehensive income (Note 9)	**3,138**	67,395	**16,840**	48,613
Comprehensive income	**$ 133,341**	$ 172,500	**$ 270,046**	$ 256,623

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-In-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2010	$ 400,000	$ 417,333	$ —	$ 871	$ 1,052,248	$ 32,329	$ 1,902,781
Comprehensive income					208,010	48,613	256,623
Capital stock/participation certificates issued/(retired), net		(4,688)					(4,688)
Dividends paid on perpetual preferred stock					(13,706)		(13,706)
Patronage distribution							
Cash distributions declared					(10,000)		(10,000)
Nonqualified allocated retained earnings				14	(14)		—
Retained earnings retired				(26)			(26)
Patronage distribution adjustment		(7)			75		68
Balance at June 30, 2011	$ 400,000	$ 412,638	$ —	$ 859	$ 1,236,613	$ 80,942	$ 2,131,052
Balance at December 31, 2011	$ 400,000	$ 405,767	$ —	$ 858	$ 1,218,648	$ 123,997	$ 2,149,270
Comprehensive income					**253,206**	**16,840**	**270,046**
Capital stock/participation certificates issued/(retired), net		**(7,695)**					**(7,695)**
Redemption of perpetual preferred stock (Note 8)	**(118,550)**		**34,100**				**(84,450)**
Dividends paid on perpetual preferred stock					**(11,479)**		**(11,479)**
Patronage distribution							
Cash distributions declared					**(11,108)**		**(11,108)**
Retained earnings retired				**(63)**			**(63)**
Balance at June 30, 2012	**$ 281,450**	**$ 398,072**	**$ 34,100**	**$ 795**	**$ 1,449,267**	**$ 140,837**	**$ 2,304,521**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30, 2012	2011
Cash flows from operating activities:		
Net income	**$ 253,206**	$ 208,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**3,363**	3,252
Premium amortization (discount accretion) on investment securities	**5,434**	13,031
(Premium amortization) discount accretion on bonds and notes	**1,537**	(1,172)
Provision for (reversal of allowance for) loan losses	**(2,895)**	30,276
(Gains) losses on other property owned, net	**4,158**	5,116
Net impairment losses on investments	**3,167**	8,110
(Gains) losses on investments, net	**—**	(3,048)
(Gains) losses on sales of rural home loans, net	**101**	86
Net change in loans held for sale	**16,231**	12,095
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**3,707**	2,894
(Increase) decrease in due from associations	**9,003**	9,676
(Increase) decrease in other assets	**(2,895)**	24,445
Increase (decrease) in accrued interest and dividends payable	**254**	(4,692)
Increase (decrease) in other liabilities	**(64,690)**	(14,440)
Total adjustments	**(23,525)**	85,629
Net cash provided by (used in) operating activities	**229,681**	293,639
Cash flows from investing activities:		
Investment securities purchased	**(394,817)**	(773,379)
Investment securities sold or matured	**811,154**	852,711
(Increase) decrease in firm commitments - when issued securities	**1,210**	2,080
Net (increase) decrease in loans	**149,612**	294,227
(Increase) decrease in investments in other Farm Credit System institutions	**159**	146
Purchase of premises and equipment, net	**(2,837)**	(3,273)
Proceeds from sale of other property owned	**15,204**	13,246
Net cash provided by (used in) investing activities	**579,685**	385,758
Cash flows from financing activities:		
Bonds and notes issued	**21,600,229**	16,012,582
Bonds and notes retired	**(22,218,688)**	(16,695,026)
Capital stock and participation certificates issued/retired, net	**(7,695)**	(4,688)
Cash distribution to shareholders	**(191,834)**	(200,475)
Redemption of perpetual preferred stock (Note 8)	**(84,450)**	—
Dividends paid on perpetual preferred stock	**(11,479)**	(13,706)
Retained earnings retired	**(63)**	(26)
Net cash provided by (used in) financing activities	**(913,980)**	(901,339)
Net increase (decrease) in cash and cash equivalents	**(104,614)**	(221,942)
Cash and cash equivalents, beginning of period	**1,301,569**	1,427,033
Cash and cash equivalents, end of period	**$ 1,196,955**	$ 1,205,091
Supplemental schedule of non-cash investing and financing activities:		
Receipt of property in settlement of loans	**$ 3,501**	$ 6,953
Change in unrealized gains (losses) on investments, net	**15,632**	46,526
Change in fair value of forward contracts (Note 7)	**(386)**	(8,769)
Employee benefit plans adjustments	**(2)**	7
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	**$ (4,470)**	$ (10,315)
Decrease (increase) in other assets	**4,470**	10,315
Supplemental information:		
Interest paid	**$ 108,277**	$ 164,375

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

Notes to the Financial Statements

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

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

Organization and Significant Accounting Policies

The accompanying financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank). AgFirst and its related twenty associations (Associations or District Associations) are collectively referred to as the District. A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the Bank as of and for the year ended December 31, 2011 are contained in the 2011 Annual Report to Shareholders. These unaudited second quarter 2012 financial statements should be read in conjunction with the 2011 Annual Report to Shareholders.

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

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

The Bank maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Bank has been identified. Certain loan pools acquired from several of the District Associations are analyzed in accordance with the selling Association's allowance methodologies for assigning general and specific allowances. The allowance for loan losses is a valuation account used to reasonably estimate loan losses 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 Bank considers factors such as credit risk classifications, collateral values, risk concentrations, weather related conditions, current production and economic conditions, and prior loan loss experience, among others, when determining the allowance for loan losses.

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 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 incurred in the remainder of the loan portfolio at the financial statement date. The general allowance excludes loans included under the specific allowance discussed above, unless specific characteristics of the loan indicate that it is probable that there would be an incurred loss in a group of loans with those 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 credit risk rating methodology is a key component of the Bank's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Bank uses a two-dimensional loan rating model based on 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 14 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.

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 Bank's financial condition or its results of operations, but will result in additional disclosures.

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 previous option permitting the presentation of other comprehensive income in the statement of changes in equity was eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). This guidance is applied retrospectively. For public entities, it was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact the Bank's financial condition or results of operations, but resulted in changes to the presentation of comprehensive income. In December 2011, the FASB issued guidance (ASU 2011-12; Topic 220) to defer the requirement to present components of accumulated other comprehensive income reclassified as components of net income on the face of the financial statements. All other requirements in the guidance for comprehensive income were required to be adopted as set forth in the June 2011 guidance. The deferral was 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 changed 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 requires 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 applied prospectively. The amendments are effective for interim and annual periods beginning after December 15, 2011. Early application is not permitted. The adoption of this guidance did not impact the Bank's financial condition or results of operations, but resulted in additional disclosures.

In April 2011, the FASB issued ASU 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring (TDR). In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities, including the Bank, 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 Bank's financial condition and results of operations but resulted in significant additional disclosures.

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

NOTE 2 — INVESTMENT SECURITIES

AgFirst's investments consist primarily of mortgage-backed securities (MBSs) collateralized by U.S. government or U.S. agency guaranteed residential mortgages. They are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk. These securities meet the applicable Farm Credit Administration (FCA) regulatory guidelines related to government agency guaranteed investments.

Included in the available-for-sale investments are non-agency collateralized mortgage obligations (CMOs) and asset backed securities (ABSs). These securities must meet the applicable FCA regulatory guidelines, which require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, and priority of payments for senior classes over junior classes. All of the non-agency securities owned have credit enhancement features including senior/subordinate structure and/or are backed by a bond insurer.

The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating criteria and requires System institutions to divest of such an investment unless the FCA grants specific approval to continue to hold the ineligible security. Non-agency CMO securities not rated in the top category by at least one of the NRSROs at June 30, 2012 had a fair value of $207.7 million. ABSs not rated in the top category by at least one of the NRSROs at June 30, 2012 had a fair value of $23.5 million. For each of these investment securities in the Bank's portfolio rated below AAA/Aaa, the Bank has developed and submitted plans for approval by the FCA that provide that the securities may be held to maturity. The FCA has approved, with conditions, the Bank's plans for all but seven investments that have recently become ineligible. The Bank has submitted plans to hold these seven ineligible securities and is awaiting approval from the FCA.

Held-to-maturity Mission Related Investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Investment Program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. The Bank does not hold any Rural America Bonds whose credit quality deteriorated beyond the program limits.

Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments follows:

	June 30, 2012				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA MBS/CMOs	$ 4,621,271	$ 188,468	$ (2,631)	$ 4,807,108	2.54%
U.S. Govt. Agency MBS	1,568,433	29,286	(9,211)	1,588,508	1.43
Non-Agency CMOs (a)	266,230	–	(56,882)	209,348	0.64
Asset-Backed Securities (a)	32,475	3,609	(4,181)	31,903	0.63
Total	$ 6,488,409	$ 221,363	$ (72,905)	$ 6,636,867	2.19%

	December 31, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA MBS/CMOs	$ 4,831,529	$ 174,101	$ (3,129)	$ 5,002,501	2.46%
U.S. Govt. Agency MBS	1,634,942	26,459	(10,572)	1,650,829	1.50
Non-Agency CMOs (b)	291,377	248	(49,869)	241,756	0.83
Asset-Backed Securities (b)	34,736	2,239	(6,651)	30,324	0.70
Total	$ 6,792,584	$ 203,047	$ (70,221)	$ 6,925,410	2.15%

(a) *Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of $38.0 million for Non-Agency CMOs and $2.3 million for Asset-Backed Securities.*

(b) *Gross unrealized losses include non-credit related other-than temporary impairment recognized in AOCI of $15.7 million for Non-Agency CMOs and $5.0 million for Asset-Backed Securities.*

Held-to-maturity

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments follows:

	June 30, 2012				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	$ 572,244	$ 50,085	$ (175)	$ 622,154	5.43%
Mission Related Investments	161,855	16,150	(103)	177,902	6.05
Total	$ 734,099	$ 66,235	$ (278)	$ 800,056	5.57%

	December 31, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	$ 691,331	$ 59,389	$ (188)	$ 750,532	5.35%
Mission Related Investments	163,531	14,112	(122)	177,521	6.07
Total	$ 854,862	$ 73,501	$ (310)	$ 928,053	5.49%

There were no sales of investment securities during the first half of 2012. During the first half of 2011, proceeds from sales of investments were $57.0 million and realized gains were $3.0 million.

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at June 30, 2012 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. GNMA MBS/CMOs	$ –	– %	$ 90	0.44 %	$ 4,702	1.76 %	$ 4,802,316	2.54 %	$ 4,807,108	2.54 %
U.S. Govt. Agency MBS	–	–	10,172	4.25	15,818	0.89	1,562,518	1.42	1,588,508	1.43
Non-Agency CMOs	–	–	–	–	–	–	209,348	0.64	209,348	0.64
Asset-Backed Securities	–	–	–	–	–	–	31,903	0.63	31,903	0.63
Total fair value	$ –	– %	$ 10,262	4.21 %	$ 20,520	1.08 %	$ 6,606,085	2.19 %	$ 6,636,867	2.19 %
Total amortized cost	$ –		$ 9,869		$ 20,259		$ 6,458,281		$ 6,488,409	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency MBS	$ –	– %	$ –	– %	$ 1,188	4.86 %	$ 571,056	5.44 %	$ 572,244	5.43 %
Mission Related Investments	2,998	5.20	30,521	6.50	21,171	6.19	107,165	5.92	161,855	6.05
Total amortized cost	$ 2,998	5.20 %	$ 30,521	6.50 %	$ 22,359	6.12 %	$ 678,221	5.51 %	$ 734,099	5.57 %
Total fair value	$ 3,072		$ 32,895		$ 24,582		$ 739,507		$ 800,056	

Substantially all of these investments have contractual maturities in excess of ten years. However, expected maturities for these types of securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following table shows the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at June 30, 2012 and December 31, 2011. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	June 30, 2012					
	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. GNMA MBS/CMOs	$ –	$ –	$ 218,128	$ (2,631)	$ 218,128	$ (2,631)
U.S. Govt. Agency MBS	171,405	(1,077)	383,909	(8,309)	555,314	(9,386)
Non-Agency CMOs	227	(1)	209,121	(56,881)	209,348	(56,882)
Asset-Backed Securities	–	–	19,256	(4,181)	19,256	(4,181)
Mission Related Investments	3,322	(103)	–	–	3,322	(103)
Total	$ 174,954	$ (1,181)	$ 830,414	$ (72,002)	$ 1,005,368	$ (73,183)

	December 31, 2011					
	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. GNMA MBS/CMOs	$ 50,348	$ (29)	$ 260,965	$ (3,101)	$ 311,313	$ (3,130)
U.S. Govt. Agency MBS	227,889	(1,646)	442,142	(9,114)	670,031	(10,760)
Non-Agency CMOs	–	–	241,092	(49,868)	241,092	(49,868)
Asset-Backed Securities	–	–	27,356	(6,651)	27,356	(6,651)
Mission Related Investments	11,987	(122)	–	–	11,987	(122)
Total	$ 290,224	$ (1,797)	$ 971,555	$ (68,734)	$ 1,261,779	$ (70,531)

FASB guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Bank intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Bank does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit 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.

The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (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 Bank has recognized total other-than-temporary impairment during the first six months of 2012 of $22.0 million in connection with non-agency ABS and CMO securities in its portfolio, which is included in Impairment Losses on Investments in the Statements of Income.

Since the Bank does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the other-than temporary impairment of $22.0 million is separated into: (1) the estimated amount relating to credit loss ($3.2 million reflected in Net Income in the Statements of Income), which is partially offset by (2) the amount relating to all other factors ($18.8 million gain reflected in the Statements of Comprehensive Income).

The Bank uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used in this technique to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Bank obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The forecasted cumulative default rates used at June 30, 2012 ranged from 1.64 percent to 41.85 percent for non-agency CMO securities and from 13.67 percent to 80.35 percent for ABS securities. Prepayment rate assumptions are based on forecasted prepayments and resulted in prepayment rates that ranged from 7.48 percent to 20.70 percent for non-agency CMO securities and from 3.11 percent to 6.88 percent for ABS securities at June 30, 2012. At June 30, 2012, the loss severity rates estimated from assumptions ranged from 3.90 percent to 77.12 percent for non-agency CMO securities and from 59.46 percent to 100.00 percent for ABS securities.

For investments that are not other-than-temporarily impaired, the Bank has not recognized any credit losses as the temporary impairments resulted from non-credit related factors. The Bank 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. Substantially all of these investments were in U.S. Government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost. For the six months ended June 30, 2012, net unrealized gains of $34.1 million were recognized in other comprehensive income for available-for-sale investments that are not other-than-temporarily impaired.

The following schedules detail the activity related to cumulative credit losses on investments recognized in earnings as of June 30, 2012 and 2011:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(dollars in thousands)	**2012**	**2011**	**2012**	**2011**
Cumulative Losses Beginning of Period	$ 53,388	$ 48,896	$ 52,980	$ 44,791
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	1,768	–	1,768	1,463
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	649	3,652	1,399	6,646
Reductions for increases in expected cash flows	(191)	(268)	(533)	(620)
Cumulative Losses End of Period	$ 55,614	$ 52,280	$ 55,614	$ 52,280

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

For a complete description of the Bank's accounting for loans (including impaired loans and the allowance for loan losses) and definitions of loan types, see the 2011 Annual Report to Shareholders.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional loan rating structure, incorporating a 14-point risk rating scale (as discussed in Note 1 above) to identify and track a borrower's probability of default and a separate scale addressing loss given default. The loan rating structure calculates estimates of loss through two components, borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

A summary of loans outstanding at June 30, 2012 and December 31, 2011 follows:

(dollars in thousands)	June 30, 2012	December 31, 2011
Direct notes	$ 13,936,561	$ 14,094,384
Real estate mortgage	1,125,162	1,207,221
Production and intermediate-term	1,174,365	1,382,659
Agribusiness		
Loans to cooperatives	178,368	174,552
Processing and marketing	680,087	684,300
Farm-related business	138,251	114,826
Total agribusiness	996,706	973,678
Communication	187,676	136,899
Energy	393,857	246,930
Water and waste disposal	28,000	28,000
Rural residential real estate	2,115,482	2,060,025
Loans to other financial institutions (OFIs)	15,650	5,250
Other (including mission-related)	12,324	17,020
Total Loans	$ 19,985,783	$ 20,152,066

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations (Direct Notes). These notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly, which further mitigates credit risk to the Bank.

The Bank may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present participations purchased and sold balances at June 30, 2012 and December 31, 2011:

	June 30, 2012							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 945,577	$ 25,965	$ 115,166	$ 24,961	$ 17,325	$ –	$ 1,078,068	$ 50,926
Production and intermediate-term	1,116,336	211,152	252,889	141,547	167,225	–	1,536,450	352,699
Agribusiness								
Loans to cooperatives	2,406	27,821	194,899	–	10,000	–	207,305	27,821
Processing and marketing	114,768	239,500	276,604	40,135	583,222	7,266	974,594	286,901
Farm-related business	36,633	33,934	106,003	–	30,367	–	173,003	33,934
Total agribusiness	153,807	301,255	577,506	40,135	623,589	7,266	1,354,902	348,656
Communication	–	56,342	244,934	–	–	–	244,934	56,342
Energy	168	19,705	407,789	–	7,434	–	415,391	19,705
Water and waste disposal	–	–	28,000	–	–	–	28,000	–
Rural residential real estate	398	–	–	–	–	–	398	–
Other (including mission-related)	51,642	13,917	–	22,030	–	3,242	51,642	39,189
Loans to OFIs	–	–	–	–	15,650	–	15,650	–
Total	$ 2,267,928	$ 628,336	$ 1,626,284	$ 228,673	$ 831,223	$ 10,508	$ 4,725,435	$ 867,517

	December 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,055,560	$ 41,469	$ 107,889	$ 39,820	$ 17,806	$ –	$ 1,181,255	$ 81,289
Production and intermediate-term	1,470,251	287,117	244,382	245,785	204,505	–	1,919,138	532,902
Agribusiness								
Loans to cooperatives	12,355	29,805	164,560	–	28,717	–	205,632	29,805
Processing and marketing	130,893	266,819	251,802	29,271	618,541	8,750	1,001,236	304,840
Farm-related business	34,077	33,339	93,958	–	21,089	–	149,124	33,339
Total agribusiness	177,325	329,963	510,320	29,271	668,347	8,750	1,355,992	367,984
Communication	–	43,562	181,323	–	–	–	181,323	43,562
Energy	167	16,675	257,196	–	7,510	–	264,873	16,675
Water and waste disposal	–	–	28,000	–	–	–	28,000	–
Rural residential real estate	269	–	–	–	–	–	269	–
Loans to OFIs	–	–	–	–	5,250	–	5,250	–
Other (including mission-related)	57,171	13,913	–	22,022	–	3,240	57,171	39,175
Total	$ 2,760,743	$ 732,699	$ 1,329,110	$ 336,898	$ 903,418	$ 11,990	$ 4,993,271	$ 1,081,587

A significant source of liquidity for the Bank is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at June 30, 2012 and indicates that approximately 7.06 percent of loans had maturities of less than one year:

(dollars in thousands)	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Direct notes	$ 905,963	$ 3,496,577	$ 9,534,021	$ 13,936,561
Real estate mortgage	115,516	356,132	653,514	1,125,162
Production and intermediate-term	262,162	620,697	291,506	1,174,365
Agribusiness				
Loans to cooperatives	16,996	76,055	85,317	178,368
Processing and marketing	85,683	478,845	115,559	680,087
Farm-related business	9,291	101,038	27,922	138,251
Total agribusiness	111,970	655,938	228,798	996,706
Communication	304	118,486	68,886	187,676
Energy	14,321	173,991	205,545	393,857
Water and waste disposal	–	–	28,000	28,000
Rural residential real estate	3	1,890	2,113,589	2,115,482
Loans to OFIs	–	15,650	–	15,650
Other (including mission-related)	914	182	11,228	12,324
Total Loans	$ 1,411,153	$ 5,439,543	$ 13,135,087	$ 19,985,783

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Direct notes:		
Acceptable	86.38%	85.65%
OAEM	5.55	11.38
Substandard/doubtful/loss	8.07	2.97
	100.00%	100.00%
Real estate mortgage:		
Acceptable	86.21%	84.03%
OAEM	8.02	9.86
Substandard/doubtful/loss	5.77	6.11
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	80.72%	78.21%
OAEM	10.63	15.09
Substandard/doubtful/loss	8.65	6.70
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	100.00%	98.40%
OAEM	–	1.60
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	93.39%	88.78%
OAEM	1.49	5.05
Substandard/doubtful/loss	5.12	6.17
	100.00%	100.00%
Farm-related business:		
Acceptable	99.55%	99.43%
OAEM	0.45	0.57
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total agribusiness:		
Acceptable	95.43%	91.76%
OAEM	1.08	3.90
Substandard/doubtful/loss	3.49	4.34
	100.00%	100.00%

	June 30, 2012	December 31, 2011
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	100.00%	99.25%
OAEM	–	0.75
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including mission-related):		
Acceptable	90.29%	87.15%
OAEM	2.42	1.79
Substandard/doubtful/loss	7.29	11.06
	100.00%	100.00%
Total Loans:		
Acceptable	88.36%	87.09%
OAEM	5.00	9.79
Substandard/doubtful/loss	6.64	3.12
	100.00%	100.00%

The following tables provide an age analysis of past due loans and related accrued interest as of June 30, 2012 and December 31, 2011:

	June 30, 2012					
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Direct notes	$ –	$ –	$ –	$ 13,965,915	$ 13,965,915	$ –
Real estate mortgage	3,590	23,873	27,463	1,106,125	1,133,588	402
Production and intermediate-term	145	18,838	18,983	1,162,453	1,181,436	–
Agribusiness						
Loans to cooperatives	–	–	–	179,166	179,166	–
Processing and marketing	–	–	–	682,710	682,710	–
Farm-related business	–	–	–	138,491	138,491	–
Total agribusiness	–	–	–	1,000,367	1,000,367	–
Communication	–	–	–	187,940	187,940	–
Energy and water/waste disposal	–	–	–	423,567	423,567	–
Rural residential real estate	35,235	3,818	39,053	2,084,298	2,123,351	3,382
Loans to OFIs	–	–	–	15,675	15,675	–
Other (including mission-related)	904	914	1,818	10,712	12,530	–
Total	$ 39,874	$ 47,443	$ 87,317	$ 19,957,052	$ 20,044,369	$ 3,784

(dollars in thousands)	December 31, 2011 30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Direct notes	$ –	$ –	$ –	$ 14,126,861	$ 14,126,861	$ –
Real estate mortgage	7,842	32,463	40,305	1,175,866	1,216,171	799
Production and intermediate-term	3,042	28,384	31,426	1,359,086	1,390,512	–
Agribusiness						
Loans to cooperatives	–	–	–	175,260	175,260	–
Processing and marketing	7	(319)	(312)	687,383	687,071	–
Farm-related business	–	–	–	115,135	115,135	–
Total agribusiness	7	(319)	(312)	977,778	977,466	–
Communication	–	–	–	137,126	137,126	–
Energy and water/waste disposal	–	–	–	276,488	276,488	–
Rural residential real estate	42,505	8,066	50,571	2,015,626	2,066,197	4,553
Loans to OFIs	–	–	–	5,259	5,259	–
Other (including mission-related)	–	–	–	17,170	17,170	–
Total	$ 53,396	$ 68,594	$ 121,990	$ 20,091,260	$ 20,213,250	$ 5,352

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

Nonperforming assets (including related accrued interest) and related credit quality statistics at June 30, 2012 and December 31, 2011 are summarized as follows:

(dollars in thousands)	June 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 30,807	$ 40,293
Production and intermediate-term	39,408	32,986
Agribusiness		
Processing and marketing	–	4,316
Total agribusiness	–	4,316
Rural residential real estate	2,239	5,727
Other (including mission-related)	914	1,900
Total nonaccrual loans	$ 73,368	$ 85,222
Accruing restructured loans:		
Real estate mortgage	$ 7,479	$ 4,134
Production and intermediate-term	646	10,017
Agribusiness		
Processing and marketing	–	24,606
Total agribusiness	–	24,606
Total accruing restructured loans	$ 8,125	$ 38,757
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 402	$ 799
Production and intermediate-term	–	–
Rural residential real estate	3,382	4,553
Total accruing loans 90 days or more past due	$ 3,784	$ 5,352
Total nonperforming loans	$ 85,277	$ 129,331
Other property owned	28,296	44,157
Total nonperforming assets	$ 113,573	$ 173,488
Nonaccrual loans as a percentage of total loans	0.37%	0.42%
Nonperforming assets as a percentage of total loans and other property owned	0.57%	0.86%
Nonperforming assets as a percentage of capital	4.93%	8.07%

The following table presents information relating to impaired loans (including accrued interest) at June 30, 2012 and December 31, 2011. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

(dollars in thousands)	June 30, 2012	December 31, 2011
Impaired nonaccrual loans:		
Current as to principal and interest	$ 28,550	$ 16,133
Past due	44,818	69,089
Total impaired nonaccrual loans	73,368	85,222
Impaired accrual loans:		
Restructured	8,125	38,757
90 days or more past due	3,784	5,352
Total impaired accrual loans	11,909	44,109
Total impaired loans	$ 85,277	$ 129,331

Additional impaired loan information as of June 30, 2012 and December 31, 2011 is summarized as follows:

	June 30, 2012			Quarter Ended June 30, 2012		Six Months Ended June 30, 2012	
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 17,790	$ 19,465	$ 3,747	$ 11,027	$ –	$ 15,524	$ –
Production and intermediate-term	25,225	28,193	7,681	15,634	(45)	17,375	–
Agribusiness							
Processing and marketing	–	–	–	–	(8)	1,696	–
Total agribusiness	–	–	–	–	(8)	1,696	–
Rural residential real estate	107	107	50	107	–	54	–
Other (including mission-related)	–	–	–	–	–	–	–
Total	$ 43,122	$ 47,765	$ 11,478	$ 26,768	$ (53)	$ 34,649	$ –
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 20,898	$ 40,443	$ –	$ 26,307	$ 480	$ 25,495	$ 556
Production and intermediate-term	14,829	31,168	–	23,708	961	22,629	1,059
Agribusiness							
Processing and marketing	–	1,229	–	4,304	570	12,723	852
Total agribusiness	–	1,229	–	4,304	570	12,723	852
Rural residential real estate	5,514	5,514	–	3,721	21	5,428	142
Other (including mission-related)	914	9,445	–	1,205	–	1,469	–
Total	$ 42,155	$ 87,799	$ –	$ 59,245	$ 2,032	$ 67,744	$ 2,609
Total impaired loans:							
Real estate mortgage	$ 38,688	$ 59,908	$ 3,747	$ 37,334	$ 480	$ 41,019	$ 556
Production and intermediate-term	40,054	59,361	7,681	39,342	916	40,004	1,059
Agribusiness							
Processing and marketing	–	1,229	–	4,304	562	14,419	852
Total agribusiness	–	1,229	–	4,304	562	14,419	852
Rural residential real estate	5,621	5,621	50	3,828	21	5,482	142
Other (including mission-related)	914	9,445	–	1,205	–	1,469	–
Total	$ 85,277	$ 135,564	$ 11,478	$ 86,013	$ 1,979	$ 102,393	$ 2,609

	December 31, 2011			Year Ended December 31, 2011	
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 19,149	$ 22,763	$ 3,851	$ 21,932	$ –
Production and intermediate-term	19,390	25,027	4,002	15,989	132
Agribusiness					
Processing and marketing	4,636	4,971	1,050	7,329	6
Total agribusiness	4,636	4,971	1,050	7,329	6
Energy/water and waste disposal	–	–	–	920	–
Rural residential real estate	104	104	36	52	–
Other (including mission-related)	542	1,879	110	932	–
Total	$ 43,821	$ 54,744	$ 9,049	$ 47,154	$ 138
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 26,077	$ 45,426	$ –	$ 56,445	$ 518
Production and intermediate-term	23,613	43,473	–	46,060	370
Agribusiness					
Loans to cooperatives	–	–	–	601	–
Processing and marketing	24,286	29,771	–	33,556	1,774
Total agribusiness	24,286	29,771	–	34,157	1,774
Energy/water and waste disposal	–	–	–	248	22
Rural residential real estate	10,176	10,055	–	6,710	161
Other (including mission-related)	1,358	9,641	–	1,390	–
Total	$ 85,510	$ 138,366	$ –	$ 145,010	$ 2,845
Total impaired loans:					
Real estate mortgage	$ 45,226	$ 68,189	$ 3,851	$ 78,377	$ 518
Production and intermediate-term	43,003	68,500	4,002	62,049	502
Agribusiness					
Loans to cooperatives	–	–	–	601	–
Processing and marketing	28,922	34,742	1,050	40,885	1,780
Total agribusiness	28,922	34,742	1,050	41,486	1,780
Energy/water and waste disposal	–	–	–	1,168	22
Rural residential real estate	10,280	10,159	36	6,762	161
Other (including mission-related)	1,900	11,520	110	2,322	–
Total	$ 129,331	$ 193,110	$ 9,049	$ 192,164	$ 2,983

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at June 30, 2012 and December 31, 2011.

A summary of changes in the allowance for loan losses and period end recorded investment in loans at June 30, 2012 and December 31, 2011 follows:

(dollars in thousands)	**Direct Note**	**Real Estate Mortgage**	**Production and Intermediate-term**	**Agribusiness**	**Communication**	**Energy and Water/Waste Disposal**	**Rural Residential Real Estate**	**Other (including mission related)**	**Total**
Allowance for credit losses:									
Balance at March 31, 2012	$ –	$ 8,986	$ 12,669	$ 5,153	$ 270	$ 310	$ 1	$ 656	$ 28,045
Charge-offs	–	(821)	(1,459)	(13)	–	–	–	(119)	(2,412)
Recoveries	–	25	2,496	1	–	–	–	–	2,522
Provision for loan losses	–	(415)	1,704	(1,855)	72	368	54	(102)	(174)
Balance at June 30, 2012	$ –	$ 7,775	$ 15,410	$ 3,286	$ 342	$ 678	$ 55	$ 435	$ 27,981
Balance at December 31, 2011	$ –	$ 8,882	$ 12,654	$ 4,974	$ 233	$ 305	$ 37	$ 629	$ 27,714
Charge-offs	–	(1,511)	(1,504)	(13)	–	–	–	(365)	(3,393)
Recoveries	–	2,834	3,720	1	–	–	–	–	6,555
Provision for loan losses	–	(2,430)	540	(1,676)	109	373	18	171	(2,895)
Balance at June 30, 2012	$ –	$ 7,775	$ 15,410	$ 3,286	$ 342	$ 678	$ 55	$ 435	$ 27,981
Balance at March 31, 2011	$ –	$ 12,299	$ 6,157	$ 5,297	$ 94	$ 276	$ –	$ 1,070	$ 25,193
Charge-offs	–	(1,881)	(5,257)	(3,436)	–	–	(36)	(679)	(11,289)
Recoveries	–	16	1	–	–	–	–	–	17
Provision for loan losses	–	4,950	9,386	2,100	15	2,984	36	(91)	19,380
Balance at June 30, 2011	$ –	$ 15,384	$ 10,287	$ 3,961	$ 109	$ 3,260	$ –	$ 300	$ 33,301
Balance at December 31, 2010	$ –	$ 4,836	$ 5,938	$ 2,722	$ 69	$ 307	$ –	$ 1,001	$ 14,873
Charge-offs	–	(2,051)	(5,771)	(3,485)	–	–	(36)	(679)	(12,022)
Recoveries	–	173	1	–	–	–	–	–	174
Provision for loan losses	–	12,426	10,119	4,724	40	2,953	36	(22)	30,276
Balance at June 30, 2011	$ –	$ 15,384	$ 10,287	$ 3,961	$ 109	$ 3,260	$ –	$ 300	$ 33,301
Loans individually evaluated for impairment	$ –	$ 3,747	$ 7,681	$ –	$ –	$ –	$ 50	$ –	$ 11,478
Loans collectively evaluated for impairment	–	4,028	7,729	3,286	342	678	5	435	16,503
Balance at June 30, 2012	$ –	$ 7,775	$ 15,410	$ 3,286	$ 342	$ 678	$ 55	$ 435	$ 27,981
Loans individually evaluated for impairment	$ –	$ 3,851	$ 4,002	$ 1,050	$ –	$ –	$ 36	$ 110	$ 9,049
Loans collectively evaluated for impairment	–	5,031	8,652	3,924	233	305	1	519	18,665
Balance at December 31, 2011	$ –	$ 8,882	$ 12,654	$ 4,974	$ 233	$ 305	$ 37	$ 629	$ 27,714
Recorded investment in loans outstanding:									
Loans individually evaluated for impairment	$ 13,965,915	$ 135,434	$ 39,377	$ –	$ –	$ –	$ 2,122,956	$ 993	$ 16,264,675
Loans collectively evaluated for impairment	–	998,154	1,142,059	1,000,367	187,940	423,567	395	27,212	3,779,694
Ending balance at June 30, 2012	$ 13,965,915	$ 1,133,588	$ 1,181,436	$ 1,000,367	$ 187,940	$ 423,567	$ 2,123,351	$ 28,205	$ 20,044,369
Loans individually evaluated for impairment	$ 14,126,861	$ 137,024	$ 27,206	$ 4,317	$ –	$ –	$ 2,065,928	$ 1,517	$ 16,362,853
Loans collectively evaluated for impairment	–	1,079,147	1,363,306	973,149	137,126	276,488	269	20,912	3,850,397
Ending balance at December 31, 2011	$ 14,126,861	$ 1,216,171	$ 1,390,512	$ 977,466	$ 137,126	$ 276,488	$ 2,066,197	$ 22,429	$ 20,213,250

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

	Three months ended June 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	**Principal Concessions**	**Other Concessions**	**Total**
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 3,431	$ –	$ 3,431
Production and intermediate-term	–	641	–	641
Total	$ –	$ 4,072	$ –	$ 4,072

Three months ended June 30, 2012	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 3,431	$ –	$ 3,431	$ –	$ –
Production and intermediate-term	–	641	–	641	–	–
Total	$ –	$ 4,072	$ –	$ 4,072	$ –	$ –

Six months ended June 30, 2012	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 3,995	$ –	$ 3,995
Production and intermediate-term	–	641	–	641
Total	$ –	$ 4,636	$ –	$ 4,636

Six months ended June 30, 2012	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 3,995	$ –	$ 3,995	$ –	$ –
Production and intermediate-term	–	641	–	641	–	–
Total	$ –	$ 4,636	$ –	$ 4,636	$ –	$ –

Three months ended June 30, 2011	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 3,369	$ –	$ 3,369
Production and intermediate-term	–	8,747	18,588	27,335
Other	–	–	1,554	1,554
Total	$ –	$ 12,116	$ 20,142	$ 32,258

Three months ended June 30, 2011	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 6,369	$ –	$ 6,369	$ –	$ –
Production and intermediate-term	–	8,747	19,766	28,513	12,801	(12,801)
Other	–	–	1,554	1,554	–	(679)
Total	$ –	$ 15,116	$ 21,320	$ 36,436	$ 12,801	$ (13,480)

Six months ended June 30, 2011	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 3,369	$ –	$ 3,369
Production and intermediate-term	–	25,120	18,589	43,709
Other	–	–	1,554	1,554
Total	$ –	$ 28,489	$ 20,143	$ 48,632

Six months ended June 30, 2011	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 6,369	$ –	$ 6,369	$ –	$ –
Production and intermediate-term	–	25,120	19,766	44,886	12,378	(12,378)
Other	–	–	1,554	1,554	–	(679)
Total	$ –	$ 31,489	$ 21,320	$ 52,809	$ 12,378	$ (13,057)

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.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three months ended June 30, 2012	Six months ended June 30, 2012
Defaulted troubled debt restructurings:		
Real estate mortgage	$ 2,427	$ 2,989
Production and intermediate-term	1,482	4,914
Total	$ 3,909	$ 7,903

TDRs outstanding at period end totaled $32,674, of which $24,549 were in nonaccrual status.

NOTE 4 — FAIR VALUE MEASUREMENT

ASC Topic 820 "Fair Value Measurement" defines fair value, establishes a framework for measuring fair value, and requires fair value disclosures for certain assets and liabilities. For the Bank, these assets and liabilities consist primarily of investments available-for-sale, highly-liquid funds, derivative assets and liabilities, assets held in trust funds, standby letters of credit, loans, other property owned, bonds and notes, and collateral liabilities.

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.

The guidance also 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 Bank's assets and liabilities 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. Level 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter markets.

Level 1 assets consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

For cash and cash equivalents, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Level 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

The fair value of substantially all investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

Level 2 assets include investments in U.S. government and agency mortgage-backed securities and U.S. agency debt securities, all of which have unadjusted values from third-party or internal pricing models. The underlying loans for these investment securities are residential mortgages. Also included are federal funds sold, securities purchased under resale agreements, and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments is generally their face value, plus accrued interest, as these instruments are highly-liquid, readily convertible to cash, and short-term in nature.

The fair value of derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models which use an income approach. These models incorporate benchmark interest rate curves (primarily the LIBOR swap curve), potential volatilities of future interest rate movements, and other inputs which are observable directly or indirectly in the marketplace. The Bank compares internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

Collateral liabilities are also considered Level 2. The majority of derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached. Face value plus accrued interest approximates the fair value of collateral liabilities.

The carrying value of accrued interest approximates its fair value.

Level 3

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

Because no active market exists for the Bank’s loans, fair value is estimated by discounting the expected future cash flows using interest rates at which similar loans would currently be made to borrowers with similar credit risk.

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 values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves.

Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent loans. Since the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan, specific reserves were established for these 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.

The Bank's mortgage-related asset-backed investment portfolio and non-agency CMO investment portfolio are also considered Level 3. The underlying loans for the asset-backed securities are mortgage related. The underlying loans for the non-agency CMO securities are residential mortgages. Based on the currently illiquid marketplace for these investments and the lack of marketplace information available as inputs and assumptions to the valuation process, the Bank classified the mortgage-related asset-backed investment portfolio and non-agency CMO investment portfolio as Level 3 assets.

Following the market disruptions of 2008, the Bank began considering both a price, or "mark," provided by a third party pricing service and a value determined using the results of a modeling process for purposes of estimating the fair values of securities in the asset-backed and non-agency CMO portfolios, as well as the resulting unrealized gain/loss impact through AOCI. The markets for these types of securities had become inactive and the prices were reflecting distressed and forced sales as evidenced by the volatility. Over time, the valuations received from the pricing service have converged toward a more reasonable correlation with our understanding of the underlying credit factors and financial metrics of these securities, though the markets remain inactive. Management believes that values supplied by the third party pricing service are currently sufficiently consistent with GAAP and that it is appropriate to return to the methodology used prior to 2009; that being the use of third party pricing alone to reflect the fair values of these portfolios in financial reporting. This methodology change resulted in a decrease of $13.8 million for the total combined fair value of these two portfolios at June 30, 2012.

For other investments, fair value is estimated by discounting future annual cash flows using prevailing rates for similar instruments at the measurement date.

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

Systemwide Debt Securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between Systemwide Debt Securities and Treasury securities. An appropriate yield-spread is estimated, taking into consideration selling group member (banks and securities dealers) yield indications, observed new GSE debt security pricing, and pricing levels in the related U.S. Dollar (USD) interest rate swap market.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Bank had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the reporting period.

(dollars in thousands)	**Asset-Backed Investment Securities**	**Non-Agency CMOs**	**Standby Letters Of Credit**
Balance at January 1, 2012	$ 30,324	$ 241,756	$ 1,787
Total gains or (losses) realized/unrealized:			
Included in earnings	–	(3,167)	–
Included in other comprehensive income (loss)	3,840	(7,262)	–
Purchases	–	–	–
Sales	–	–	–
Issuances	–	–	46
Settlements	(2,261)	(21,979)	–
Transfers in and/or out of level 3	–	–	–
Balance at June 30, 2012	$ 31,903	$ 209,348	$ 1,833

(dollars in thousands)	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2011	$ 34,437	$ 295,526	$ 1,263
Total gains or (losses) realized/unrealized:			
Included in earnings	(2,963)	(4,527)	–
Included in other comprehensive income (loss)	1,353	8,850	–
Purchases	–	–	–
Sales	–	–	–
Issuances	–	–	905
Settlements	(3,375)	(40,520)	–
Transfers in and/or out of level 3	–	–	–
Balance at June 30, 2011	$ 29,452	$ 259,329	$ 2,168

Sensitivity to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the residential mortgage-backed securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Management determines the Bank's valuation policies and procedures. Internal valuation processes are calibrated annually by an independent consultant. Fair value measurements are analyzed on a periodic basis. Documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing.

Quoted market prices are generally not available for the instruments presented 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 significant unobservable inputs used to estimate fair value for Level 3 assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Valuation Technique(s)	Unobservable Input	Range
Firm commitments-when issued securities	Broker/Consensus pricing	Offered quotes	103.101 – 104.209
Mission Related Investments	Discounted cash flow	Probability of default	0% –16%
		Risk adjusted spread	2.00% – 8.25%
Impaired loans and other property owned	Appraisal	Income and expense	*
		Comparable sales	*
		Replacement cost	*
		Comparability adjustments	*

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

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Investments available for sale	Discounted cash flow	Constant prepayment rate
		Probability of default
		Loss severity
	Quoted prices	Price for similar security
Federal funds sold, securities purchased under resale agreements and other	Carrying value	Par/principal and appropriate interest yield
Interest rate swaps	Discounted cash flow	Annualized volatility
		Counterparty credit risk
		Own credit risk

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Cash and cash equivalents	Carrying value	Par/principal and appropriate interest yield
Other investments	Discounted cash flow	Prepayment rate
		Probability of default
		Loss severity
Accrued interest	Carrying value	Coupon interest rates
Assets held in trust funds	Quoted prices	Price for identical security
Bonds and notes	Discounted cash flow	Benchmark yield curve
		Derived yield spread
		Own credit risk
Cash collateral	Carrying value	Par/principal and appropriate interest yield

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

(dollars in thousands)	June 30, 2012					
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Fair Value Effects On Comprehensive Income**
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. GNMA MBS/CMOs	$ 4,807,108	$ –	$ 4,807,108	$ –	$ 4,807,108	
U.S. Govt. Agency MBS	1,588,508	–	1,588,508	–	1,588,508	
Non-Agency CMOs	209,348	–	–	209,348	209,348	
Asset-backed securities	31,903	–	–	31,903	31,903	
Total investments available-for-sale	6,636,867	–	6,395,616	241,251	6,636,867	
Federal funds sold, securities purchased under resale agreements, and other	149,302	–	149,302	–	149,302	
Interest rate swaps and other derivative instruments	48,587	–	47,858	729	48,587	
Assets held in trust funds	3,379	3,379	–	–	3,379	
Recurring Assets	$ 6,838,135	$ 3,379	$ 6,592,776	$ 241,980	$ 6,838,135	
Liabilities:						
Interest rate swaps and other derivative instruments	$ 23	$ –	$ –	$ 23	$ 23	
Collateral liabilities	1,359	–	1,359	–	1,359	
Standby letters of credit	1,833	–	–	1,833	1,833	
Recurring Liabilities	$ 3,215	$ –	$ 1,359	$ 1,856	$ 3,215	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 73,799	$ –	$ –	$ 73,799	$ 73,799	$ 733
Other property owned	28,296	–	–	30,239	30,239	(3,819)
Nonrecurring Assets	$ 102,095	$ –	$ –	$ 104,038	$ 104,038	$ (3,086)
Other Financial Instruments						
Assets:						
Cash	$ 1,196,955	$ 1,196,955	$ –	$ –	$ 1,196,955	
Investments held to maturity	734,099	–	622,154	177,902	800,056	
Loans	19,884,003	–	–	20,063,026	20,063,026	
Other investments	–	–	–	–	–	
Accrued interest receivable	75,199	–	75,199	–	75,199	
Other Assets	$ 21,890,256	$ 1,196,955	$ 697,353	$ 20,240,928	$ 22,135,236	
Liabilities:						
Systemwide debt securities	$ 26,464,757	$ –	$ –	$ 26,584,326	$ 26,584,326	
Accrued interest payable	42,672	–	42,672	–	42,672	
Other Liabilities	$ 26,507,429	$ –	$ 42,672	$ 26,584,326	$ 26,626,998	

The following table presents the assets and liabilities that are measured at fair value on a recurring basis for each of the fair value hierarchy levels at the period ended:

(dollars in thousands)	December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Assets:				
Investments Available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	$ –	$ 5,002,501	$ –	$ 5,002,501
U.S. Govt. Agency MBS	–	1,650,829	–	1,650,829
Non-Agency CMOs	–	–	241,756	241,756
Asset-Backed Securities	–	–	30,324	30,324
Total Investments Available-for-sale	–	6,653,330	272,080	6,925,410
Federal funds sold, securities purchased under resale agreements, and other	–	83,822	–	83,822
Interest rate swaps and other derivative instruments	–	52,647	–	52,647
Assets held in trust funds	3,151	–	–	3,151
Total Assets	$ 3,151	$ 6,789,799	$ 272,080	$ 7,065,030
Liabilities:				
Collateral liabilities	$ –	$ 22,139	$ –	$ 22,139
Standby letters of credit	–	–	1,787	1,787
Total Liabilities	$ –	$ 22,139	$ 1,787	$ 23,926

Assets and liabilities measured at fair value on a non-recurring basis at period end for each of the fair value hierarchy levels are summarized below:

(dollars in thousands)	December 31, 2011 Level 1	Level 2	Level 3	Total Fair Value	Total Gains (Losses)
Assets:					
Impaired loans *	$ –	$ –	$ 34,771	$ 34,771	$ (71,913)
Other property owned *	$ –	$ –	$ 48,014	$ 48,014	$ (11,402)

* *In accordance with FASB guidance in effect at December 31, 2011, amounts include only those assets remeasured during the reporting period. The fair value of total impaired loans at period end was $120,282 and the fair value of other property owned was $48,014.*

The following table presents the carrying amounts and fair values of the Bank's financial instruments at December 31, 2011. Carrying amounts include accrued interest if applicable.

(dollars in thousands)	December 31, 2011 Carrying Amount	Estimated Fair Value
Financial assets:		
Loans, net of allowance	$ 20,124,352	$ 20,406,083
Derivative assets	$ 52,647	$ 52,647
Cash & cash equivalents	$ 1,301,569	$ 1,301,569
Investment securities	$ 7,780,272	$ 7,835,742
Accrued interest receivable	$ 78,906	$ 78,906
Assets held in trust funds	$ 3,151	$ 3,151
Financial liabilities:		
Bonds and notes	$ 27,128,566	$ 27,263,779

NOTE 5 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each Farm Credit System (System) bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the banks are jointly and severally liable for the bonds and notes of the other System banks. The bonds and notes of the System totaled $190.678 billion at June 30, 2012.

There are no material claims pending against the Bank in which money damages are asserted.

NOTE 6 — EMPLOYEE BENEFIT PLANS

Following are retirement and other postretirement benefit expenses for the Bank:

(dollars in thousands)	For the six months ended June 30, 2012	2011
Pension	$ 4,955	$ 4,861
401k	582	553
Other postretirement benefits	447	591
Total	$ 5,984	$ 6,005

Following are retirement and other postretirement benefit contributions for the Bank. Projections are based upon actuarially determined amounts as of the most recent measurement date of December 31, 2011.

(dollars in thousands)	**Actual YTD Through 6/30/12**	**Projected Contributions for Remainder of 2012**	**Projected Total Contributions 2012**
Pensions	$ 146	$ 7,048	$ 7,194
Other postretirement benefits	499	484	983
Total	$ 645	$ 7,532	$ 8,177

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

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

NOTE 7 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Bank's goal is to minimize interest rate sensitivity by managing the repricing characteristics of assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. The Bank maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to lower cost of funding or to reduce interest rate risk. Currently, the primary derivative type used by the Bank is interest rate swaps, which convert fixed interest rate debt to a lower floating interest rate than was achievable from issuing floating rate debt with identical repricing characteristics. They may allow the Bank to lower funding costs, allow it to diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Interest rate swaps enable the Bank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the Bank if floating rate borrowings were made directly. Under these arrangements, the Bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

The Bank may also purchase interest rate derivatives such as caps, in order to reduce the impact of rising interest rates on its floating-rate debt, and floors, in order to reduce the impact of falling interest rates on its floating-rate assets. In addition, the Bank may also fix a price to be paid in the future which qualifies as a derivative forward contract.

As a result of interest rate fluctuations, interest income and interest expense related to hedged variable-rate assets and liabilities, respectively, will increase or decrease. Another result of interest rate fluctuations is that hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effects of any earnings variability or unrealized changes in market value are expected to be substantially offset by the Bank's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The Bank considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The primary types of derivative instrument used and the amount of activity for the six months ended June 30, 2012 is summarized in the following table:

Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ 535	$ 66
Additions	–	427
Maturities/amortization	–	(66)
Terminations	–	–
Balance at end of period	$ 535	$ 427

By using derivative instruments, the Bank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Bank, thus creating a repayment risk for the Bank. When the fair value of the derivative contract is negative, the Bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the Bank deals with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of and levels of exposure to individual counterparties. The estimated gross credit risk exposure at June 30, 2012 of $47.9 million was with five counterparties and represented approximately 8.95 percent of the total notional amount of interest rate swaps. The Bank held $1.4 million of interest-bearing cash collateral and US Treasury securities with a fair value of $20.3 million, posted by one counterparty related to these swaps. The Bank does not anticipate nonperformance by any of these counterparties. The estimated gross credit risk exposure at December 31, 2011 of $52.3 million was with five counterparties and represented approximately 9.78 percent of the total notional amount of interest rate swaps. The Bank held $22.1 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties. At period end, the Bank had not posted collateral with respect to any of these arrangements.

The Bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of the Bank's asset/liability and treasury functions. The Bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by the Bank's Board of Directors through the Bank's analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Bank's overall interest rate risk-management strategies.

Fair-Value Hedges

For derivative instruments designated as fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the six months ended June 30, 2012 was $4.8 million, while the amount of the gain on the Systemwide Debt Securities was $4.8 million. The amount of the loss on interest rate swaps recognized in interest expense for the six months ended June 30, 2011 was $10.3 million, while the amount of the gain on the Systemwide Debt Securities was $10.3 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

From time to time, the Bank may acquire when-issued securities, generally Government National Mortgage Association (GNMA) bonds. The when-issued transactions are contracts to purchase securities that will not be delivered until 30, or more, days in the future. These purchase commitments are considered derivatives (cash flow hedges) in the form of forward contracts. Changes in market value of the contracted securities, between purchase and settlement date, represent the effective portion of the Bank's forward contracts. These amounts are included in Other Comprehensive Income (OCI), and Other Liabilities or Other Assets as appropriate, as firm commitments in the Bank's Balance Sheet for each period end. At June 30, 2012, the Bank had committed to purchase $426.8 million in when-issued GNMA bonds that had a market value of $427.6 million, a $729 thousand increase in value. At December 31, 2011, the Bank had committed to purchase $66.4 million in when-issued GNMA bonds that had a market value of $66.7 million, a $319 thousand increase in value.

For derivative instruments that are designated and qualify as a cash flow hedge, such as the Bank's forward contracts, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Fair Values of Derivative Instruments

The following tables represent the fair value of derivative instruments at June 30, 2012 and December 31, 2011:

(dollars in thousands)	Balance Sheet Classification – Assets	6/30/12 Fair Value	Balance Sheet Classification - Liabilities	6/30/12 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 47,858	Other Liabilities	$ –
Forward contracts	Other Assets	729	Other Liabilities	23
Total		$ 48,587		$ 23

(dollars in thousands)	Balance Sheet Classification - Assets	12/31/11 Fair Value	Balance Sheet Classification – Liabilities	12/31/11 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 52,328	Other Liabilities	$ –
Forward contracts	Other Assets	319	Other Liabilities	–
Total		$ 52,647		$ –

The following table sets forth the amount of net gain (loss) recognized in the Statements of Income for the six months ended June 30, 2012 and 2011.

(dollars in thousands)	Location of Gain or (Loss) Recognized in the Statement of Income	2012 Amount of Gain or (Loss) Recognized in the Statement of Income	2011 Amount of Gain or (Loss) Recognized in the Statement of Income
Derivatives – Fair Value Hedging Relationships:			
Receive-fixed swaps	Noninterest Income	$ –	$ –
Total		$ –	$ –

The following table sets forth the amount of net gain (loss) recognized in the Statements of Income for the six months ended June 30, 2012 and 2011 and the amount of net gain (loss) recognized in the Balance Sheets for June 30, 2012 and December 31, 2011.

(dollars in thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2012	**2011**		**2012**	**2011**		**2012**	**2011**
Derivatives – Cash Flow Hedging Relationships:								
Firm Commitments	$ 1,509	$ 1,810	Interest Income	$ 299	$ (270)	Interest Income	$ –	$ –

NOTE 8 – PERPETUAL PREFERRED STOCK

During the first half of 2012, the Bank repurchased, through privately negotiated transactions, and cancelled Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $118.6 million. The effect of the repurchases on shareholders’ equity was to reduce preferred stock outstanding by $118.6 million and record $34.1 million of additional paid-in-capital.

NOTE 9 - ACCUMULATED OTHER COMPREHENSIVE INCOME

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

(dollars in thousands)	Unrealized gains (losses) on Investments	Firm Commitments	Employee Benefit Plans	Accumulated Other Comprehensive Income
Balance at December 31, 2011	$ 132,825	$ (5,565)	$ (3,263)	$ 123,997
Other comprehensive income	15,632	1,210	(2)	16,840
Balance at June 30, 2012	148,457	(4,355)	(3,265)	140,837
Balance at December 31, 2010	43,703	(8,751)	(2,623)	32,329
Other comprehensive income	46,526	2,080	7	48,613
Balance at June 30, 2011	$ 90,229	$ (6,671)	$ (2,616)	$ 80,942

(dollars in thousands)	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Other Comprehensive Income and Reclassification Amounts:				
Unrealized holding gains (losses) for period	$ 52	$ 62,881	$ 12,465	$ 41,464
Amounts reclassified to (gains) losses in net income	–	(3,048)	–	(3,048)
Amounts reclassified to other-than-temporary impairment in net income	2,417	3,652	3,167	8,110
Unrealized gains (losses) on securities, net	2,469	63,485	15,632	46,526
Change in value of cash flow hedges	706	3,678	1,509	1,810
Amounts reclassified to net income	(151)	154	(299)	270
Other	–	–	–	–
Change associated with cash flow hedges, net	555	3,832	1,210	2,080
Amounts reclassified to net periodic pension costs	114	78	227	155
Net gain (loss) during period	–	–	(229)	(148)
Defined benefit post retirement plans, net	$ 114	$ 78	$ (2)	$ 7

NOTE 10 – DISTRICT MERGER ACTIVITY

Effective July 1, 2012, Chattanooga, ACA, merged with and into Jackson Purchase, ACA, after the Farm Credit Administration granted final approval of the merger on June 26, 2012. Jackson Purchase, ACA, then changed its name to River Valley AgCredit, ACA. The merger was accounted for under the acquisition method of accounting guidance.

NOTE 11 – SUBSEQUENT EVENTS

The Bank has evaluated subsequent events and has determined that, except as described in Note 10 above, there are none requiring disclosure through August 8, 2012, which is the date the financial statements were issued.