Quarterly Report

Third quarter 2012

AgFirst Farm Credit Bank
and District Associations

Farm Credit
Lending support to rural America™

THIRD QUARTER 2012

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2012 quarterly report of AgFirst Farm Credit Bank and District Associations, 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

November 8, 2012

Report on Internal Control Over Financial Reporting

AgFirst Farm Credit Bank's (Bank) and each affiliated District Agricultural Credit Association's (District Association) 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 and each District Association's respective Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Bank's and each District Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the respective Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

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

The Bank's and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 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 and each District Association concluded that as of September 30, 2012, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank and each District Association determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2012.

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

November 8, 2012

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

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

As of September 30, 2012, the District included nineteen Associations, all of which were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate both long-term and short- and intermediate-term loans. See Note 12, *District Merger Activity,* in the Notes to the Combined Financial Statements for further information.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. However, neither the three months nor the nine months results of operations may be indicative of an entire year due to the seasonal nature of a portion of the District'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 the District's expectations and predictions due to a number of risks and uncertainties, many of which are beyond the District'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

The District's aggregate loan portfolio consists primarily of direct loans made by the Associations to eligible borrowers located within their chartered territories. Diversification of the loan volume by type is illustrated in the following table:

Loan Types *(dollars in thousands)*	**September 30, 2012**		**December 31, 2011**		**September 30, 2011**	
Real Estate Mortgage	$ 9,807,675	43%	$ 9,756,036	43%	$ 9,844,073	43%
Production and Intermediate-Term	7,853,067	35	7,924,627	36	8,025,209	35
Rural Residential Real Estate	2,576,887	11	2,470,742	11	2,418,423	11
Agribusiness						
Loans to Cooperatives	262,427	1	256,981	1	268,051	1
Processing and Marketing	1,061,451	5	1,115,490	5	1,207,844	6
Farm-Related Business	367,113	2	348,797	2	352,382	2
Total Agribusiness	1,690,991	8	1,721,268	8	1,828,277	9
Energy	460,362	2	280,700	1	306,373	1
Communication	284,597	1	213,501	1	202,862	1
Water and Waste Disposal	28,021	–	28,022	–	28,022	–
Loans to OFIs	8,087	–	5,250	–	12,250	–
Lease Receivables	4,035	–	2,986	–	3,405	–
Other (including Mission Related)	62,145	–	78,373	–	79,578	–
Total	$ 22,775,867	100%	$ 22,481,505	100%	$ 22,748,472	100%

Total loans outstanding were $22.776 billion at September 30, 2012, an increase of $294 million, or 1.31 percent, compared to total loans outstanding at December 31, 2011. The minimal loan growth was due to a number of factors, including the slow recovery of the general economy. This has affected the Bank's and District Associations' current and prospective customers through fluctuating demand and prices for certain agricultural products and lower value for real estate and other investment holdings of some borrowers. 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 have reduced their demand for credit. However, the summer drought conditions for portions of the District have negatively affected 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 low loan demand throughout the District. Future loan demand is very difficult to predict; however, it is expected to remain weak through 2013.

Credit Quality

Credit quality, although improving, continues to be impacted by the slow recovery after a period of prolonged weakness in the economy. Though problem asset levels remained elevated, credit quality has recently stabilized with modest improvement as can be seen in the following table:

	Credit Quality as of:		
Classification	**September 30, 2012**	**December 31, 2011**	**September 30, 2011**
Acceptable	89.92%	88.50%	87.79%
OAEM *	4.55%	5.66%	5.75%
Substandard	5.51%	5.77%	6.35%
Doubtful/loss	0.02%	0.07%	0.11%

* *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 continues to be 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 District'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 meat complex has been profitable year-to-date, but high grain prices will challenge profitability for the next nine to twelve months. Margins for dairy farmers remain depressed, but, in general, are sufficient to service debt. The volatility of grain prices will also challenge the ethanol sector.

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

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 combined District at September 30, 2012, were $615.8 million compared to $666.7 million at December 31, 2011. Nonaccrual loans decreased $51.0 million during the nine month period ended September 30, 2012 due primarily to repayments of $243.9 million, $40.0 million of charge-offs net of recoveries on uncollectible balances, transfers to other property owned of $56.1 million, and reinstatements to accrual status of $17.9 million. Offsetting these decreases were $269.5 million of loan balances transferred to nonaccrual status and advances of $27.0 million. The ten largest nonaccrual borrower relationships accounted for 22.80 percent of the total nonaccrual balance. At September 30, 2012, total nonaccrual loans were primarily in the forestry (22.16 percent of the total), nursery/greenhouse (19.70 percent), other real estate (8.05 percent), poultry (7.25 percent), fruits and vegetables (6.61 percent), and cattle (6.03 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 2.70 percent and 2.97 percent of total loans outstanding at September 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 and District Associations 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 and District Associations. Troubled debt restructurings totaled $268.0 million at September 30, 2012, compared to $267.8 million at December 31, 2011. At September 30, 2012, troubled debt restructurings were comprised of $109.6 million of accruing restructured loans and $158.4 million of nonaccruing restructured loans. Restructured loans were primarily in the forestry (31.26 percent of the total), nursery/greenhouse (13.62 percent), poultry (8.61 percent), fruits and vegetables (7.18 percent), other real estate (6.01 percent), and dairy (5.18 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 and District Associations (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 $33.3 million during the first nine months of 2012 and totaled $124.9 million at September 30, 2012. For the nine months ended September 30, 2012, transfers to OPO were $58.5 million. Offsetting this increase were disposals of $69.1 million and write-downs of OPO of $22.7 million. Disposals primarily included land holdings, with the two largest property disposals totaling $13.9 million. The largest property write-downs were two land holdings in the forestry segment totaling $4.0

million. At September 30, 2012, the largest OPO holding was an ethanol facility totaling $20.8 million (16.63 percent of the total).

Allowance for Loan Losses

The District 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 $197.0 million at September 30, 2012, as compared with $175.0 million at December 31, 2011. Activity in the allowance for the nine months ended September 30, 2012 included $63.1 million provision expense and recoveries of $20.8 million. Offsetting these increases were loan charge-offs of $60.5 million, as their collectability became more measurable and apparent during the nine month period, and $1.4 million merger related adjustments. Charge-offs during the nine month period were related primarily to borrowers in the nursery/greenhouse (35.61 percent of the total), forestry (16.72 percent), and other real estate (11.92 percent) segments. The allowance at September 30, 2012 included specific reserves of $93.2 million (47.31 percent of the total) and $103.8 million (52.69 percent) of general reserves. The total allowance at September 30, 2012 was comprised primarily of reserves for the nursery/greenhouse (18.53 percent of the total), forestry (18.14 percent), cattle (6.78 percent), poultry (6.42 percent), ethanol (5.47 percent), other real estate (5.40 percent), and fruits/vegetables (5.11 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 Combined 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 in the debt markets to support its mission, 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.

During the third quarter of 2012, Standard & Poor's Ratings Services, Moody's Investor Service, and Fitch Ratings affirmed their long-term debt rating for the System at AA+, Aaa, and AAA and their short-term debt rating at A-1+, P-1, and F-1, respectively, while their outlook on the long-term debt rating of the System remained negative due to the negative outlook on the long-term rating for the U.S. 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 future downgrades could also reduce earnings by increasing debt funding costs and have a material adverse effect on liquidity, ability to conduct normal business operations, and the Bank's overall financial condition and results of operations. However, AgFirst anticipates continued access to funding necessary to support the District's and Bank's needs.

At September 30, 2012, AgFirst had $26.260 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 liquidity investments as discussed below, which when combined with an increase in retained earnings, reduced funding requirements.

Cash and cash equivalents, which decreased $464.6 million from December 31, 2011 to a total of $875.5 million at September 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).

Investment securities totaled $7.709 billion, or 24.10 percent of total assets at September 30, 2012, compared to $7.956 billion, or 24.47 percent, as of December 31, 2011. Investment securities decreased $246.6 million (3.10 percent), compared to December 31, 2011, as held-to-maturity Mission Related investments paid down and as management maintained the available-for-sale liquidity investment portfolio size generally proportionate with the loan portfolio and within regulatory and policy guidelines.

Investment securities classified as being available-for-sale totaled $6.929 billion at September 30, 2012. Available-for-sale investments at September 30, 2012 included $5.099 billion in Government National Mortgage Association (GNMA) securities backed by the full faith and credit of the U.S. Government, $1.532 billion in Agency mortgage backed securities, $212.1 million in non-agency collateralized mortgage obligations (CMOs), $54.1 million in Mission Related Investments, and $32.1 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.

As of September 30, 2012, AgFirst exceeded all applicable regulatory liquidity requirements. Farm Credit Administration (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 through the liquidation of eligible available-for-sale investments and cash and cash equivalents maintained by the Bank. At September 30, 2012, AgFirst's coverage was 225 days, compared to 205 days at December 31, 2011. At September 30, 2012, the Bank's cash and cash equivalents position provided 23 days coverage and investment securities fully backed by the U.S. government provided an additional 202 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 225 days.

Net unrealized gains related to the available-for-sale securities were $200.6 million at September 30, 2012, compared to $139.4 million at December 31, 2011. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Combined Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The District performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Based on the results of all analyses, the District recognized other-than-temporary credit related impairment of $158 thousand and $3.3 million on asset-backed securities and non-agency CMOs in its portfolio for the three and nine months ended September 30, 2012, respectively, which was included in Net Other-Than-Temporary Impairment Losses on Investments in the Statements of Income. See Note 2, *Investment Securities*, in the Notes to the Combined Financial Statements for further information.

Capital Resources

Total shareholders' equity increased $426.3 million (9.43 percent) from December 31, 2011 to a total of $4.948 billion at September 30, 2012. This increase is primarily attributed to 2012 unallocated retained earnings from net income of $500.0 million, increases of $61.2 million in net unrealized gains during 2012 on investments available-for-sale, and employee benefit plan adjustments of $20.9 million. Offsetting the increases were retained earnings retired of $52.6 million, patronage paid of $9.8 million, preferred stock dividend payments of $12.0 million, and the redemption of preferred stock referenced below.

During the first nine months 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 $124.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $124.8 million and record $36.6 million of additional paid-in-capital.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2012 was $143.3 million, compared to $114.6 million for the same period of 2011, an increase of $28.7 million, or 25.00 percent. For the nine months ended September 30, 2012, net income was $500.0 million, compared to $378.7 million for the same period of 2011, an increase of $121.3 million, or 32.03 percent.

Key Results of Operations Comparisons

	Annualized for the nine months ended September 30, 2012	For the year ended December 31, 2011	Annualized for the nine months ended September 30, 2011
Return on average assets	2.09%	1.48%	1.54%
Return on average shareholders' equity	14.09%	10.93%	11.56%
Net interest income as a percentage of average earning assets	3.72%	3.57%	3.54%
Net (charge-offs) recoveries to average loans	(0.24)%	(0.91)%	(0.82)%

Net Interest Income

Net interest income for the three months ended September 30, 2012 was $283.2 million compared to $282.3 million for the same period of 2011, an increase of $838 thousand or 0.30 percent. For the nine months ended September 30, 2012, net interest income was $850.3 million, compared to $831.8 million for the same period of 2011, an increase of $18.4 million, or 2.22 percent. The net interest margin was 3.68 percent in the current year three month period, an improvement of 11 basis points over the comparable period of 2011. The net interest margin was 3.72 percent in the current year nine month period, an improvement of 18 basis points over the comparable period 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 District has experienced over the last several years from calling debt will likely diminish.

The following table illustrates the changes in net interest income:

	For the three months ended September 30, 2012 vs. September 30, 2011			For the nine months ended September 30, 2012 vs. September 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	$ (1,691)	$ (12,660)	$ (14,351)	$ (16,556)	$ (23,066)	$ (39,622)
Investments & Cash Equivalents	(3,862)	(1,357)	(5,219)	(10,397)	140	(10,257)
Total Interest Income	$ (5,553)	$ (14,017)	$ (19,570)	$ (26,953)	$ (22,926)	$ (49,879)
Interest Expense:						
Interest-Bearing Liabilities	$ (3,185)	$ (17,223)	$ (20,408)	$ (11,231)	$ (57,085)	$ (68,316)
Changes in Net Interest Income	$ (2,368)	$ 3,206	$ 838	$ (15,722)	$ 34,159	$ 18,437

Provision for Loan Losses

The District 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. The provision for loan losses was $38.2 million and $63.1 million for the three and nine month periods ended September 30, 2012, compared to $64.5 million and $153.4 million for the same periods in 2011. Provision for loan loss expense for the three months ended September 30, 2012 consisted of $38.5 million related to reserves for specific credits and reversals of $312 thousand related to general reserves. Provision expense for the three month period was related primarily to the nursery/greenhouse ($17.5 million), ethanol ($6.9 million), forestry ($4.4 million), non-farm income ($3.5 million), cattle ($3.4 million), and other real estate ($2.8 million) segments, partially offset by reversals in the processing ($2.4 million) segment. Provision for loan loss expense for the nine months ended September 30, 2012 consisted of $69.2 million related to reserves for specific credits and reversals of $6.1 million related to general reserves. Provision expense for the nine month period was related primarily to the nursery/greenhouse ($35.3 million), other real estate ($7.7 million), ethanol ($6.7 million), forestry ($6.6 million), and cattle ($5.8 million) segments, partially offset by reversals in the processing ($15.0 million) segment. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Combined 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 September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2012**	**2011**	**Increase/ (Decrease)**	**2012**	**2011**	**Increase/ (Decrease)**
Loan fees	$ 8,914	$ 10,784	$ (1,870)	$ 28,460	$ 30,440	$ (1,980)
Fees for financially related services	3,546	3,408	138	6,798	6,587	211
Gains (losses) from other property owned, net	(4,700)	(10,640)	5,940	(25,917)	(27,644)	1,727
Gains (losses) on investments, net	–	–	–	–	2,973	(2,973)
Net impairment losses on investments	(158)	(569)	411	(3,338)	(8,679)	5,341
Gains (losses) on sale of rural home loans, net	766	493	273	1,975	1,444	531
Gains from sale of premises and equipment, net	217	664	(447)	664	1,230	(566)
Patronage refunds from other Farm Credit institutions	26	231	(205)	480	367	113
Insurance premium refund	–	–	–	33,744	–	33,744
Other noninterest income	2,179	1,725	454	4,790	4,009	781
Total noninterest income	$ 10,790	$ 6,096	$ 4,694	$ 47,656	$ 10,727	$ 36,929

Noninterest income for the three months and nine months ended September 30, 2012 increased $4.7 million and $36.9 million, respectively, compared to the corresponding periods in 2011. The increase for the quarter ended September 30, 2012 was due primarily to the decrease of losses on other property owned. The increase for the nine months ended September 30, 2012 was due primarily to the District's recording $33.7 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.

Loan fee income decreased $1.9 million and $2.0 million for the three and nine months ended September 30, 2012, respectively, due primarily to reductions in new loan fees.

Losses from other property owned decreased $5.9 million and $1.7 million for the three and nine month periods ended September 30, 2012 compared to the corresponding periods in the prior year. The two largest losses for the third quarter of 2012 were in the forestry and fruits/vegetables segments and totaled $2.2 million. The nine months ended September 30, 2012 included $6.9 million of additional losses on four land holdings in the forestry and other real estate segments. 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 District's investment portfolio.

Net impairment losses on investments decreased $411 thousand and $5.3 million for the three and nine month periods ended September 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 and Note 2, *Investment Securities*, in the Notes to the Combined Financial Statements for further information.

For the three months ended September 30, 2012 compared to the same period in 2011, other noninterest income increased $454 thousand due primarily to gains realized on benefit trusts in 2012. Other noninterest income increased $781 thousand for the nine months ended September 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 September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2012**	**2011**	**Increase/ (Decrease)**	**2012**	**2011**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 64,012	$ 60,603	$ 3,409	$ 193,223	$ 186,108	$ 7,115
Occupancy and equipment	9,156	8,543	613	27,235	25,534	1,701
Insurance Fund premiums	2,848	3,526	(678)	8,363	10,465	(2,102)
Other operating expenses	21,926	20,532	1,394	66,003	61,313	4,690
Called debt expense	11,675	13,436	(1,761)	32,044	19,295	12,749
Correspondent lending servicing expense	2,329	2,124	205	6,885	6,611	274
Other noninterest expense	–	–	–	–	104	(104)
Total noninterest expense	$ 111,946	$ 108,764	$ 3,182	$ 333,753	$ 309,430	$ 24,323

Noninterest expense for the three months and nine months ended September 30, 2012 increased $3.2 million and $24.3 million, respectively, compared to the corresponding periods in 2011. The increase for the three months ended September 30, 2012 was primarily due to the increase in salaries and benefits. The increase for the nine months ended September 30, 2012 was 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 decreased $1.8 million and increased $12.7 million for the three month and nine month periods, respectively. Call options were exercised on bonds totaling $18.899 billion for the nine months ended September 30, 2012 compared to $16.166 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 increases in salaries and employee benefits of $3.4 million and $7.1 million, for the three month and nine month periods ended September 30, 2012, respectively, were due primarily to normal salary administration, and increased employee benefit costs.

Occupancy and equipment expense for the three and nine month periods ended September 30, 2012 increased $613 thousand and $1.7 million 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 nine 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 nine months ended September 30, 2012 increased $1.4 million and $4.7 million, respectively. A portion of the increases resulted from additional consulting and professional fees required for system enhancements, which increased other operating expenses $672 thousand and $1.8 million for the three and nine months ended September 30, 2012, respectively. The remainder of the increases in other operating expenses were comprised of numerous and varied expenses, none of which individually had a significant increase and some of which were the result of timing differences for the three and nine month periods ended September 30, 2012 compared to the same periods in 2011.

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 12, *District Merger Activity*, in the Notes to the Combined Financial Statements for information regarding merger activity in the District.

REGULATORY MATTERS

Please refer to Note 11, *Regulatory Enforcement Matters,* in the Notes to the Combined Financial Statements for information regarding regulatory matters in the District.

OTHER MATTERS

As disclosed in the 2012 Second Quarter Report of AgFirst Farm Credit Bank and District Associations, 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Combined Financial Statements, and the 2011 Annual Report of AgFirst Farm Credit Bank and District Associations 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.

Combined Balance Sheets

(dollars in thousands)	September 30, 2012	December 31, 2011
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	**$ 875,548**	$ 1,340,167
Investment securities:		
Available for sale (amortized cost of $6,727,999 and $6,840,738 respectively)	**6,928,565**	6,980,105
Held to maturity (fair value of $851,918 and $1,053,277 respectively)	**780,397**	975,448
Total investment securities	**7,708,962**	7,955,553
Loans	**22,775,867**	22,481,505
Less: allowance for loan losses	**196,968**	174,976
Net loans	**22,578,899**	22,306,529
Loans held for sale	**10,987**	10,201
Other investments	**161,159**	238,552
Accrued interest receivable	**224,003**	197,782
Investments in other Farm Credit System institutions	**12,845**	12,680
Premises and equipment, net	**128,052**	127,445
Other property owned	**124,870**	158,144
Other assets	**163,437**	163,815
Total assets	**$ 31,988,762**	$ 32,510,868
Liabilities		
Bonds and notes	**$ 26,462,788**	$ 27,288,439
Accrued interest and dividends payable	**35,980**	42,570
Dividends and patronage refunds payable	**13,914**	93,665
Pension and other postretirement benefits liability	**382,667**	370,568
Advanced conditional payments	**10,339**	5,553
Other liabilities	**135,574**	188,894
Total liabilities	**27,041,262**	27,989,689
Commitments and contingencies (Note 5)		
Shareholders' Equity		
Perpetual preferred stock	**275,250**	400,000
Protected borrower equity	**3,075**	3,269
Capital stock and participation certificates	**157,849**	159,334
Additional paid-in-capital (Note 8 and 12)	**60,270**	7,873
Retained earnings		
Allocated	**1,364,205**	1,415,359
Unallocated	**3,218,614**	2,756,592
Accumulated other comprehensive income (loss)	**(131,763)**	(221,248)
Total shareholders' equity	**4,947,500**	4,521,179
Total liabilities and equity	**$ 31,988,762**	$ 32,510,868

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Interest Income				
Investment securities	**$ 46,859**	$ 51,087	**$ 146,170**	$ 153,699
Loans	**285,665**	300,016	**859,876**	899,498
Other	**1,877**	2,868	**5,813**	8,541
Total interest income	**334,401**	353,971	**1,011,859**	1,061,738
Interest Expense	**51,222**	71,630	**161,595**	229,911
Net interest income	**283,179**	282,341	**850,264**	831,827
Provision for loan losses	**38,163**	64,542	**63,137**	153,434
Net interest income after provision for loan losses	**245,016**	217,799	**787,127**	678,393
Noninterest Income				
Loan fees	**8,914**	10,784	**28,460**	30,440
Fees for financially related services	**3,546**	3,408	**6,798**	6,587
Gains (losses) from other property owned, net	**(4,700)**	(10,640)	**(25,917)**	(27,644)
Gains (losses) on investments, net	**—**	—	**—**	2,973
Total other-than-temporary impairment losses on investments (Note 2)	**—**	(642)	**(21,995)**	(3,521)
Portion of loss recognized in other comprehensive income (loss) (Note 2)	**(158)**	73	**18,657**	(5,158)
Net other-than-temporary impairment losses on investments	**(158)**	(569)	**(3,338)**	(8,679)
Gains (losses) on sales of rural home loans, net	**766**	493	**1,975**	1,444
Gains from sale of premises and equipment, net	**217**	664	**664**	1,230
Patronage refunds from other Farm Credit institutions	**26**	231	**480**	367
Insurance premium refund	**—**	—	**33,744**	—
Other noninterest income	**2,179**	1,725	**4,790**	4,009
Total noninterest income	**10,790**	6,096	**47,656**	10,727
Noninterest Expenses				
Salaries and employee benefits	**64,012**	60,603	**193,223**	186,108
Occupancy and equipment	**9,156**	8,543	**27,235**	25,534
Insurance Fund premiums	**2,848**	3,526	**8,363**	10,465
Other operating expenses	**21,926**	20,532	**66,003**	61,313
Called debt expense	**11,675**	13,436	**32,044**	19,295
Correspondent lending servicing expense	**2,329**	2,124	**6,885**	6,611
Other noninterest expense	**—**	—	**—**	104
Total noninterest expenses	**111,946**	108,764	**333,753**	309,430
Income before income taxes	**143,860**	115,131	**501,030**	379,690
Provision for income taxes	**584**	506	**1,000**	965
Net income	**$ 143,276**	$ 114,625	**$ 500,030**	$ 378,725

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

Combined Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Net income	**$ 143,276**	$ 114,625	**$ 500,030**	$ 378,725
Other comprehensive income net of tax				
Unrealized gains (losses) on investments available for sale:				
Other-than-temporarily impaired (Note 2)	**12,689**	1,603	**(5,788)**	3,645
Not other-than-temporarily impaired (Note 2)	**34,082**	36,994	**66,987**	83,252
Change in value of firm commitments - when issued securities (Note 7)	**6,174**	830	**7,384**	2,910
Employee benefit plans adjustments (Note 6)	**6,391**	7,203	**20,902**	21,730
Other comprehensive income	**59,336**	46,630	**89,485**	111,537
Comprehensive income	**$ 202,612**	$ 161,255	**$ 589,515**	$ 490,262

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	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	$ 3,641	$ 150,031	$ —	$ 1,318,996	$ 2,575,592	$ (291,580)	$ 4,156,680
Comprehensive income						378,725	111,537	490,262
Protected borrower equity retired		(356)						(356)
Capital stock/participation certificates issued (retired), net			2,919					2,919
Dividends declared/paid			573			(573)		—
Dividends paid on perpetual preferred stock						(13,706)		(13,706)
Patronage distribution								
Cash						(9,010)		(9,010)
Nonqualified allocated retained earnings					14	(14)		—
Retained earnings retired					(48,737)			(48,737)
Equity issued as result of merger (Note 12)		267	1,936	7,922				10,125
Equity retired as result of merger (Note 12)		(267)	(1,936)			(31,458)		(33,661)
Patronage distribution adjustment			(7)		90	1,640		1,723
Balance at September 30, 2011	$ 400,000	$ 3,285	$ 153,516	$ 7,922	$ 1,270,363	$ 2,901,196	$ (180,043)	$ 4,556,239
Balance at December 31, 2011	$ 400,000	$ 3,269	$ 159,334	$ 7,873	$ 1,415,359	$ 2,756,592	$ (221,248)	$ 4,521,179
Comprehensive income						**500,030**	**89,485**	**589,515**
Protected borrower equity retired		**(194)**						**(194)**
Capital stock/participation certificates issued (retired), net			**(1,808)**					**(1,808)**
Dividends declared/paid			**323**			**(472)**		**(149)**
Dividends paid on perpetual preferred stock						**(12,012)**		**(12,012)**
Redemption of perpetual preferred stock (Note 8)	**(124,750)**			**36,580**				**(88,170)**
Patronage distribution								
Cash						**(9,814)**		**(9,814)**
Retained earnings retired					**(52,863)**	**225**		**(52,638)**
Equity issued as result of merger (Note 12)			**3,163**	**15,817**	**10,463**			**29,443**
Equity retired as result of merger (Note 12)			**(3,163)**		**(10,463)**	**(14,509)**		**(28,135)**
Patronage distribution adjustment					**1,709**	**(1,426)**		**283**
Balance at September 30, 2012	**$ 275,250**	**$ 3,075**	**$ 157,849**	**$ 60,270**	**$ 1,364,205**	**$ 3,218,614**	**$ (131,763)**	**$ 4,947,500**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	**$ 500,030**	$ 378,725
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**12,520**	12,351
Amortization of net deferred loan origination (fees) costs	**(6,560)**	(7,857)
Premium amortization (discount accretion) on investment securities	**2,974**	7,478
(Premium amortization) discount accretion on bonds and notes	**2,675**	(591)
Provision for loan losses	**63,137**	153,434
(Gains) losses on other property owned	**25,917**	27,644
(Gains) losses from sale of premises and equipment, net	**(664)**	(1,230)
Net impairment losses on investments	**3,338**	8,679
(Gains) losses on investments, net	**—**	(2,973)
(Gains) losses on sales of rural home loans, net	**(1,975)**	(1,444)
Net change in loans held for sale	**23,470**	17,528
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**(26,221)**	(34,058)
(Increase) decrease in other assets	**(6,199)**	12,423
Increase (decrease) in accrued interest payable	**(6,590)**	(13,031)
Increase (decrease) in pension and other postretirement benefits liability	**33,001**	15,992
Increase (decrease) in other liabilities	**(56,658)**	63,134
Total adjustments	**62,165**	257,479
Net cash provided by (used in) operating activities	**562,195**	636,204
Cash flows from investing activities:		
Investment securities purchased	**(977,379)**	(922,464)
Proceeds from investment securities sold or matured	**1,283,766**	1,202,624
Net (increase) decrease in loans	**(391,155)**	28,294
(Increase) decrease in investments in other Farm Credit System institutions	**(165)**	(144)
Purchases of other investments	**(475)**	(2,599)
Proceeds from payments received on other investments	**83,683**	82,542
Purchase of premises and equipment, net	**(12,295)**	(12,415)
Proceeds from sale of premises and equipment, net	**1,347**	1,914
Proceeds from sale of other property owned	**48,224**	44,853
Net cash provided by (used in) investing activities	**35,551**	422,605
Cash flows from financing activities:		
Bonds and notes issued	**33,099,088**	30,693,259
Bonds and notes retired	**(33,921,986)**	(31,332,626)
Net increase (decrease) in advanced conditional payments	**4,786**	(41)
Protected borrower equity retired	**(194)**	(356)
Capital stock and participation certificates issued/retired, net	**(1,808)**	2,919
Patronage refunds and dividends paid	**(89,431)**	(93,456)
Redemption of perpetual preferred stock (Note 8)	**(88,170)**	—
Dividends paid on perpetual preferred stock	**(12,012)**	(13,706)
Retained earnings retired	**(52,638)**	(48,737)
Net cash provided by (used in) financing activities	**(1,062,365)**	(792,744)
Net increase (decrease) in cash and cash equivalents	**(464,619)**	266,065
Cash and cash equivalents, beginning of period	**1,340,167**	1,463,700
Cash and cash equivalents, end of period	**$ 875,548**	$ 1,729,765
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	**$ 17,479**	$ 5,715
Receipt of property in settlement of loans	**58,346**	77,135
Change in unrealized gains (losses) on investments, net	**61,199**	86,897
Employee benefit plans adjustments	**20,902**	21,730
Equity issued as result of merger (Note 12)	**29,443**	10,125
Equity retired as result of merger (Note 12)	**(28,135)**	(33,661)
Adjustment of allowance for loan losses related to Association mergers (Note 3)	**(1,409)**	(16,097)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	**$ (6,520)**	$ (5,933)
Decrease (increase) in other assets	**6,520**	5,933
Supplemental information:		
Interest paid	**$ 165,510**	$ 243,508
Taxes paid, net	**564**	713

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

Notes to the Combined 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 combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District. All significant transactions and balances between AgFirst and the District Associations have been eliminated in combination. A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the District as of and for the year ended December 31, 2011 are contained in the 2011 Annual Report to Shareholders. These unaudited third 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 nine months ended September 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 District 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 District has been identified. 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 District 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 District's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The District 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 District'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 provide 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 District'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 and 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 District's financial condition or results of operations, but resulted in significant additional disclosures.

In April 2011, the FASB issued ASU 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring (TDR). In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities, including the District, for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The guidance should be applied retrospectively to the beginning of the annual period of adoption. The new disclosures about TDR activity required by the guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," as discussed below, are effective for annual reporting periods ending after December 15, 2011.

In January 2011, the FASB issued ASU 2011-01, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This amendment temporarily delayed the effective date of the disclosures about TDRs required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about TDRs coincides with the guidance for determining what constitutes a TDR as described above. The adoption of this guidance had no material impact on the District'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

District 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 and ABSs not rated in the top category by at least one of the NRSROs at September 30, 2012 had a fair value of $210.5 million and $23.5 million, respectively. For each of these investment securities in the District's portfolio rated below AAA/Aaa, the District has developed and submitted plans for approval by the FCA that provide that the securities may be held to maturity, and the FCA has approved, with conditions, the District's plans for all these investments.

Mission Related Investments are generally held to maturity and 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. Pursuant to these conditions of approval, the District has submitted and received approval for plans to hold two Rural America Bonds totaling $5.1 million whose credit quality had 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:

	September 30, 2012				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA MBS/CMOs	$ 4,889,843	$ 211,217	$ (2,317)	$ 5,098,743	2.42%
U.S. Govt. Agency MBS	1,505,633	33,524	(7,586)	1,531,571	1.30
Non-Agency CMOs (a)	257,217	14	(45,130)	212,101	0.58
Asset-Backed Securities (a)	27,504	5,751	(1,192)	32,063	0.67
Mission Related Investments	47,802	6,525	(240)	54,087	5.96
Total	$ 6,727,999	$ 257,031	$ (56,465)	$ 6,928,565	2.12%

	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)	292,075	248	(50,092)	242,231	0.83
Asset-Backed Securities (b)	34,736	2,239	(6,651)	30,324	0.70
Mission Related Investments	47,456	6,909	(145)	54,220	6.14
Total	$ 6,840,738	$ 209,956	$ (70,589)	$ 6,980,105	2.18%

(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 $16.0 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:

	September 30, 2012				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	$ 505,141	$ 48,516	$ (162)	$ 553,495	5.49%
Asset-Backed Securities	72,152	1,362	(336)	73,178	1.58
Mission Related Investments	203,104	22,356	(215)	225,245	6.05
Total	$ 780,397	$ 72,234	$ (713)	$ 851,918	5.27%

	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%
Asset-Backed Securities	74,777	943	(406)	75,314	1.61
Mission Related Investments	209,340	18,472	(381)	227,431	6.01
Total	$ 975,448	$ 78,804	$ (975)	$ 1,053,277	5.21%

During the first nine months of 2012, proceeds from sales of investments were $486 thousand and there were no realized gain on investments. Proceeds from sales of investments were $57.3 million and realized gains were $3.0 million for the nine months ended September 30, 2011.

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at September 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	$ –	– %	$ 84	0.43 %	$ 4,919	1.52 %	$ 5,093,740	2.42 %	$ 5,098,743	2.42 %
U.S. Govt. Agency MBS	–	–	9,287	4.08	17,895	0.87	1,504,389	1.29	1,531,571	1.30
Non-Agency CMOs	–	–	–	–	–	–	212,101	0.58	212,101	0.58
Asset-Backed Securities	–	–	–	–	–	–	32,063	0.67	32,063	0.67
Mission Related Investments	–	–	2,000	5.96	1,144	5.96	50,943	5.96	54,087	5.96
Total fair value	$ –	– %	$ 11,371	4.40 %	$ 23,958	1.21 %	$ 6,893,236	2.12 %	$ 6,928,565	2.12 %
Total amortized cost	$ –		$ 10,935		$ 23,453		$ 6,693,611		$ 6,727,999	

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	$ –	– %	$ –	– %	$ 928	4.23 %	$ 504,213	5.49 %	$ 505,141	5.49 %
Asset-Backed Securities	1,019	1.82	9,001	0.96	33,479	1.52	28,653	1.83	72,152	1.58
Mission Related Investments	4,999	5.39	30,168	6.50	23,763	6.36	144,174	5.93	203,104	6.05
Total amortized cost	$ 6,018	4.78 %	$ 39,169	5.23 %	$ 58,170	3.54 %	$ 677,040	5.43 %	$ 780,397	5.27 %
Total fair value	$ 6,061		$ 41,362		$ 62,284		$ 742,211		$ 851,918	

Substantially all of these securities 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 tables show the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	September 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	$ 169,796	$ (108)	$ 201,347	$ (2,209)	$ 371,143	$ (2,317)
U.S. Govt. Agency MBS	171,168	(745)	337,001	(7,003)	508,169	(7,748)
Non-Agency CMOs	–	–	211,866	(45,130)	211,866	(45,130)
Asset-Backed Securities	1,978	(36)	23,986	(1,492)	25,964	(1,528)
Mission Related Investments	15,128	(455)	–	–	15,128	(455)
Total	$ 358,070	$ (1,344)	$ 774,200	$ (55,834)	$ 1,132,270	$ (57,178)

	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	$ 50,349	$ (29)	$ 260,966	$ (3,100)	$ 311,315	$ (3,129)
U.S. Govt. Agency MBS	227,888	(1,646)	442,141	(9,114)	670,029	(10,760)
Non-Agency CMOs	–	–	241,567	(50,092)	241,567	(50,092)
Asset-Backed Securities	423	(1)	44,651	(7,056)	45,074	(7,057)
Mission Related Investments	38,038	(526)	–	–	38,038	(526)
Total	$ 316,698	$ (2,202)	$ 989,325	$ (69,362)	$ 1,306,023	$ (71,564)

FASB guidance 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 District 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 District 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 District 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 District recognized $3.3 million of credit-related other-than-temporary impairment during the first nine months of 2012 in connection with non-agency ABS and CMO securities, which is included in Impairment Losses on Investments in the Combined Statements of Income.

Since the District 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 total other-than temporary impairment is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized/recorded as a reclassification to or from Other Comprehensive Income.

The District 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 to estimate the amount of 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 District 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 following are the assumptions used at:

Assumptions Used	September 30, 2012 Mortgage-backed Securities	Asset-backed Securities
Default rate by range	1.43% to 39.22%	13.38% to 73.08%
Prepayment rate by range	7.36% to 21.14%	3.28% to 7.94%
Loss severity by range	3.35% to 68.10%	52.69% to 100.00%

Assumptions Used	December 31, 2011 Mortgage-backed Securities	Asset-backed Securities
Default rate by range	1.39% to 40.59%	21.42% to 82.87%
Prepayment rate by range	6.73% to 19.96%	3.85% to 6.31%
Loss severity by range	4.27% to 60.03%	59.59% to 100.00%

For all other impaired investments, the District has not recognized any credit losses as the impairments are deemed temporary and result from non-credit related factors. The District 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 District expects these securities would not be settled at a price less than their amortized cost. For the nine months ended September 30, 2012, net unrealized gains of $67.0 million were recognized in other comprehensive income for available-for-sale investments that are not other-than-temporarily impaired.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings for which a portion of an other-than-temporary impairment was recognized in other comprehensive income:

(dollars in thousands)	For the Three Months Ended September 30, 2012	2011	For the Nine Months Ended September 30, 2012	2011
Cumulative Losses Beginning of Period	$ 36,879	$ 38,002	$ 36,542	$ 34,513
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	–	–	1,768	1,463
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	158	569	1,570	7,215
Reductions for increases in expected cash flows	(253)	(192)	(787)	(812)
Reductions for securities sold	(432)	–	(432)	–
Losses incurred	1,964	(1,065)	(345)	(5,065)
Cumulative Losses End of Period	$ 38,316	$ 37,314	$ 38,316	$ 37,314

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

For a complete description of the District'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 District manages credit risk associated with lending activities through an assessment of the risk profile of an individual obligor. The Bank and each Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the Boards 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 is related to the structure of a credit (tenor, terms, and collateral).

A summary of loans outstanding follows:

(dollars in thousands)	September 30, 2012	December 31, 2011
Real estate mortgage	$ 9,807,674	$ 9,756,036
Production and intermediate-term	7,853,067	7,924,627
Agribusiness		
Loans to cooperatives	262,427	256,981
Processing and marketing	1,061,451	1,115,490
Farm-related business	367,113	348,797
Total agribusiness	1,690,991	1,721,268
Communication	284,598	213,501
Energy	460,362	280,700
Water and waste disposal	28,021	28,022
Rural residential real estate	2,576,886	2,470,742
Lease receivables	4,035	2,986
Loans to other financial institutions (OFIs)	8,088	5,250
Other (including mission-related)	62,145	78,373
Total Loans	$ 22,775,867	$ 22,481,505

The District 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 participation loan balances at periods ended:

	September 30, 2012					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 142,312	$ 62,255	$ 97,876	$ 3,678	$ 240,188	$ 65,933
Production and intermediate-term	378,692	172,131	384,003	25,015	762,695	197,146
Agribusiness						
Loans to cooperatives	252,983	–	17,592	–	270,575	–
Processing and marketing	311,946	34,841	658,004	4,174	969,950	39,015
Farm-related business	128,176	11,405	34,914	838	163,090	12,243
Total agribusiness	693,105	46,246	710,510	5,012	1,403,615	51,258
Communication	322,598	–	–	–	322,598	–
Energy	463,849	–	7,281	–	471,130	–
Water and waste disposal	28,000	–	–	–	28,000	–
Rural residential real estate	–	–	51	–	51	–
Lease receivables	1,134	–	–	–	1,134	–
Loans to OFIs	–	–	8,088	–	8,088	–
Other (including mission-related)	–	19,776	6,187	2,910	6,187	22,686
Total	$ 2,029,690	$ 300,408	$ 1,213,996	$ 36,615	$ 3,243,686	$ 337,023

	December 31, 2011					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 135,657	$ 65,477	$ 111,443	$ 3,792	$ 247,100	$ 69,269
Production and intermediate-term	304,593	333,209	507,782	29,982	812,375	363,191
Agribusiness						
Loans to cooperatives	183,406	–	36,853	–	220,259	–
Processing and marketing	310,301	17,411	660,500	4,135	970,801	21,546
Farm-related business	123,291	7,476	26,798	899	150,089	8,375
Total agribusiness	616,998	24,887	724,151	5,034	1,341,149	29,921
Communication	231,022	–	–	–	231,022	–
Energy	275,443	–	7,510	–	282,953	–
Water and waste disposal	28,000	–	–	–	28,000	–
Rural residential real estate	–	–	53	–	53	–
Lease receivables	1,709	–	–	–	1,709	–
Loans to OFIs	–	–	5,250	–	5,250	–
Other (including mission-related)	–	22,022	9,095	3,240	9,095	25,262
Total	$ 1,593,422	$ 445,595	$ 1,365,284	$ 42,048	$ 2,958,706	$ 487,643

The following table presents the contractual maturity distribution of loans by loan type at September 30, 2012 and indicates that approximately 17.78 percent of loans had maturities of less than one year:

(dollars in thousands)	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 794,260	$ 2,615,030	$ 6,398,384	$ 9,807,674
Production and intermediate-term	2,609,166	3,127,316	2,116,585	7,853,067
Agribusiness				
Loans to cooperatives	44,707	125,390	92,330	262,427
Processing and marketing	343,459	549,566	168,426	1,061,451
Farm-related business	90,027	209,590	67,496	367,113
Total agribusiness	478,193	884,546	328,252	1,690,991
Communication	87,707	129,243	67,648	284,598
Energy	46,959	166,135	247,268	460,362
Water and waste disposal	21	–	28,000	28,021
Rural residential real estate	29,605	70,940	2,476,341	2,576,886
Lease receivables	2,578	480	977	4,035
Loans to OFIs	–	8,088	–	8,088
Other (including mission-related)	1,089	10,852	50,204	62,145
Total Loans	$ 4,049,578	$ 7,012,630	$ 11,713,659	$ 22,775,867

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 September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Real estate mortgage:		
Acceptable	89.46%	88.42%
OAEM	4.43	5.13
Substandard/doubtful/loss	6.11	6.45
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	86.69%	84.82%
OAEM	6.51	8.29
Substandard/doubtful/loss	6.80	6.89
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	95.16%	92.01%
OAEM	4.26	7.39
Substandard/doubtful/loss	0.58	0.60
	100.00%	100.00%
Processing and marketing:		
Acceptable	86.75%	85.52%
OAEM	5.13	6.40
Substandard/doubtful/loss	8.12	8.08
	100.00%	100.00%
Farm-related business:		
Acceptable	94.69%	95.51%
OAEM	2.65	1.80
Substandard/doubtful/loss	2.66	2.69
	100.00%	100.00%
Total Agribusiness:		
Acceptable	89.78%	88.52%
OAEM	4.45	5.61
Substandard/doubtful/loss	5.77	5.87
	100.00%	100.00%

	September 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	99.55%	98.63%
OAEM	0.45	1.37
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.78%	98.69%
OAEM	0.46	0.47
Substandard/doubtful/loss	0.76	0.84
	100.00%	100.00%
Lease receivables:		
Acceptable	93.30%	89.33%
OAEM	5.87	3.76
Substandard/doubtful/loss	0.83	6.91
	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	87.95%	79.66%
OAEM	–	1.53
Substandard/doubtful/loss	12.05	18.81
	100.00%	100.00%
Total Loans:		
Acceptable	89.92%	88.50%
OAEM	4.55	5.66
Substandard/doubtful/loss	5.53	5.84
	100.00%	100.00%

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

	September 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**
Real estate mortgage	$ 106,681	$ 161,324	$ 268,005	$ 9,638,366	$ 9,906,371	$ 1,638
Production and intermediate-term	82,455	133,953	216,408	7,720,863	7,937,271	498
Agribusiness						
Loans to cooperatives	–	1,547	1,547	262,444	263,991	–
Processing and marketing	13,216	13,326	26,542	1,039,746	1,066,288	–
Farm-related business	1,211	524	1,735	366,998	368,733	–
Total agribusiness	14,427	15,397	29,824	1,669,188	1,699,012	–
Communication	–	–	–	284,966	284,966	–
Energy and water/waste disposal	–	–	–	490,838	490,838	–
Rural residential real estate	47,838	10,722	58,560	2,529,559	2,588,119	4,883
Lease receivables	–	34	34	4,026	4,060	–
Loans to OFIs	–	–	–	8,101	8,101	–
Other (including mission-related)	–	7,501	7,501	55,388	62,889	560
Total	$ 251,401	$ 328,931	$ 580,332	$ 22,401,295	$ 22,981,627	$ 7,579

	December 31, 2011					
(dollars in thousands)	**30 Through 89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment 90 Days or More Past Due and Accruing Interest**
Real estate mortgage	$ 141,900	$ 214,314	$ 356,214	$ 9,486,256	$ 9,842,470	$ 1,154
Production and intermediate-term	77,546	180,018	257,564	7,740,979	7,998,543	581
Agribusiness						
Loans to cooperatives	–	1,553	1,553	256,486	258,039	–
Processing and marketing	308	1,621	1,929	1,118,245	1,120,174	–
Farm-related business	804	7,847	8,651	341,940	350,591	–
Total agribusiness	1,112	11,021	12,133	1,716,671	1,728,804	–
Communication	–	–	–	213,810	213,810	–
Energy and water/waste disposal	–	–	–	310,357	310,357	–
Rural residential real estate	52,146	14,358	66,504	2,412,196	2,478,700	4,583
Lease receivables	–	37	37	2,958	2,995	–
Loans to OFIs	–	–	–	5,259	5,259	–
Other (including mission-related)	957	2,383	3,340	75,985	79,325	1,238
Total	$ 273,661	$ 422,131	$ 695,792	$ 21,964,471	$ 22,660,263	$ 7,556

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

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

(dollars in thousands)	September 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 277,166	$ 317,772
Production and intermediate-term	269,156	288,029
Agribusiness		
Loans to cooperatives	1,546	1,551
Processing and marketing	43,451	21,628
Farm-related business	5,061	8,066
Total agribusiness	50,058	31,245
Rural residential real estate	12,024	17,555
Lease receivables	34	207
Other (including mission-related)	7,314	11,901
Total nonaccrual loans	$ 615,752	$ 666,709
Accruing restructured loans:		
Real estate mortgage	$ 55,403	$ 41,793
Production and intermediate-term	51,255	31,523
Agribusiness		
Processing and marketing	–	24,606
Farm-related business	1,157	48
Total agribusiness	1,157	24,654
Rural residential real estate	1,801	1,373
Total accruing restructured loans	$ 109,616	$ 99,343
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 1,638	$ 1,154
Production and intermediate-term	498	581
Rural residential real estate	4,883	4,583
Other (including mission-related)	560	1,238
Total accruing loans 90 days or more past due	$ 7,579	$ 7,556
Total nonperforming loans	$ 732,947	$ 773,608
Other property owned	124,870	158,144
Total nonperforming assets	$ 857,817	$ 931,752
Nonaccrual loans as a percentage of total loans	2.70%	2.97%
Nonperforming assets as a percentage of total loans and other property owned	3.75%	4.12%
Nonperforming assets as a percentage of capital	17.34%	20.61%

The following table presents information related to impaired loans (including accrued interest) at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

(dollars in thousands)	September 30, 2012	December 31, 2011
Impaired nonaccrual loans:		
Current as to principal and interest	$ 214,910	$ 197,916
Past due	400,842	468,793
Total impaired nonaccrual loans	615,752	666,709
Impaired accrual loans:		
Restructured	109,616	99,343
90 days or more past due	7,579	7,556
Total impaired accrual loans	117,195	106,899
Total impaired loans	$ 732,947	$ 773,608

Additional impaired loan information at period end is summarized as follows:

(dollars in thousands)	September 30, 2012 Recorded Investment	September 30, 2012 Unpaid Principal Balance	September 30, 2012 Related Allowance	Quarter Ended September 30, 2012 Average Impaired Loans	Quarter Ended September 30, 2012 Interest Income Recognized on Impaired Loans	For the Nine Months Ended September 30, 2012 Average Impaired Loans	For the Nine Months Ended September 30, 2012 Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 131,657	$ 159,449	$ 31,500	$ 129,286	$ 501	$ 123,554	$ 2,013
Production and intermediate-term	158,488	189,066	52,145	155,453	401	149,541	2,379
Agribusiness							
Loans to cooperatives	–	–	–	–	–	–	–
Processing and marketing	27,114	28,214	7,852	27,082	255	12,895	331
Farm-related business	4,306	4,443	463	4,204	(25)	5,537	78
Total agribusiness	31,420	32,657	8,315	31,286	230	18,432	409
Rural residential real estate	4,812	6,824	1,220	4,748	14	5,520	87
Lease receivables	–	–	–	–	–	–	–
Other (including mission-related)	–	–	–	–	(51)	1,298	–
Total	$ 326,377	$ 387,996	$ 93,180	$ 320,773	$ 1,095	$ 298,345	$ 4,888
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 202,550	$ 267,603	$ –	$ 191,023	$ 998	$ 206,055	$ 4,210
Production and intermediate-term	162,421	210,557	–	154,903	803	170,621	4,012
Agribusiness							
Loans to cooperatives	1,546	1,567	–	1,551	8	1,541	32
Processing and marketing	16,337	32,640	–	15,154	77	23,732	1,162
Farm-related business	1,912	5,015	–	1,869	11	2,460	35
Total agribusiness	19,795	39,222	–	18,574	96	27,733	1,229
Rural residential real estate	13,896	16,092	–	12,935	107	12,048	343
Lease receivables	34	84	–	34	–	89	1
Other (including mission-related)	7,874	16,596	–	8,340	300	8,215	376
Total	$ 406,570	$ 550,154	$ –	$ 385,809	$ 2,304	$ 424,761	$ 10,171
Total impaired loans:							
Real estate mortgage	$ 334,207	$ 427,052	$ 31,500	$ 320,309	$ 1,499	$ 329,609	$ 6,223
Production and intermediate-term	320,909	399,623	52,145	310,356	1,204	320,162	6,391
Agribusiness							
Loans to cooperatives	1,546	1,567	–	1,551	8	1,541	32
Processing and marketing	43,451	60,854	7,852	42,236	332	36,627	1,493
Farm-related business	6,218	9,458	463	6,073	(14)	7,997	113
Total agribusiness	51,215	71,879	8,315	49,860	326	46,165	1,638
Rural residential real estate	18,708	22,916	1,220	17,683	121	17,568	430
Lease receivables	34	84	–	34	–	89	1
Other (including mission-related)	7,874	16,596	–	8,340	249	9,513	376
Total	$ 732,947	$ 938,150	$ 93,180	$ 706,582	$ 3,399	$ 723,106	$ 15,059

	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	$ 121,212	$ 143,092	$ 22,652	$ 141,775	$ 2,295
Production and intermediate-term	139,753	186,637	37,916	171,089	2,920
Agribusiness					
Loans to cooperatives	–	–	–	190	–
Processing and marketing	7,723	8,192	1,386	19,970	81
Farm-related business	5,838	7,042	153	6,401	140
Total agribusiness	13,561	15,234	1,539	26,561	221
Energy/water and waste disposal	–	–	–	3,345	–
Rural residential real estate	7,216	9,211	2,073	6,121	162
Lease receivables	37	87	7	103	1
Other (including mission-related)	542	1,879	110	932	–
Total	$ 282,321	$ 356,140	$ 64,297	$ 349,926	$ 5,599
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 239,507	$ 316,615	$ –	$ 262,915	$ 5,317
Production and intermediate-term	180,380	269,949	–	197,867	4,001
Agribusiness					
Loans to cooperatives	1,551	1,580	–	3,115	38
Processing and marketing	38,511	52,708	–	44,022	2,117
Farm-related business	2,276	4,538	–	1,891	55
Total agribusiness	42,338	58,826	–	49,028	2,210
Energy/water and waste disposal	–	–	–	3,344	22
Rural residential real estate	16,295	18,644	–	13,139	301
Lease receivables	170	190	–	226	4
Other (including mission-related)	12,597	22,219	–	6,120	348
Total	$ 491,287	$ 686,443	$ –	$ 532,639	$ 12,203
Total impaired loans:					
Real estate mortgage	$ 360,719	$ 459,707	$ 22,652	$ 404,690	$ 7,612
Production and intermediate-term	320,133	456,586	37,916	368,956	6,921
Agribusiness					
Loans to cooperatives	1,551	1,580	–	3,305	38
Processing and marketing	46,234	60,900	1,386	63,992	2,198
Farm-related business	8,114	11,580	153	8,292	195
Total agribusiness	55,899	74,060	1,539	75,589	2,431
Energy/water and waste disposal	–	–	–	6,689	22
Rural residential real estate	23,511	27,855	2,073	19,260	463
Lease receivables	207	277	7	329	5
Other (including mission-related)	13,139	24,098	110	7,052	348
Total	$ 773,608	$ 1,042,583	$ 64,297	$ 882,565	$ 17,802

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 each reporting period.

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

(dollars in thousands)	**Real Estate Mortgage**	**Production and Intermediate-term**	**Agribusiness**	**Communication**	**Energy and Water/Waste Disposal**	**Rural Residential Real Estate**	**Lease Receivables**	**Other Loans (including mission related)**	**Total**
Allowance for credit losses:									
Balance at June 30, 2012	$ 65,804	$ 89,817	$ 13,251	$ 731	$ 1,110	$ 3,619	$ 17	$ 740	$ 175,089
Charge-offs	(8,420)	(9,693)	(2,287)	–	–	(592)	–	(1)	(20,993)
Recoveries	1,312	4,770	13	–	–	17	–	6	6,118
Provision for loan losses	12,135	18,505	7,046	52	35	691	31	(332)	38,163
Adjustment due to merger	(440)	(702)	(235)	–	–	(32)	–	–	(1,409)
Other	–	–	(1)	–	–	–	–	1	–
Balance at September 30, 2012	$ 70,391	$ 102,697	$ 17,787	$ 783	$ 1,145	$ 3,703	$ 48	$ 414	$ 196,968
Balance at December 31, 2011	$ 65,951	$ 89,155	$ 14,050	$ 482	$ 672	$ 4,015	$ 20	$ 631	$ 174,976
Charge-offs	(34,371)	(21,720)	(2,305)	–	–	(1,729)	–	(366)	(60,491)
Recoveries	5,962	14,626	85	–	–	76	–	6	20,755
Provision for loan losses	35,072	19,461	6,230	301	473	1,429	28	143	63,137
Adjustment due to merger	(440)	(702)	(235)	–	–	(32)	–	–	(1,409)
Other	(1,783)	1,877	(38)	–	–	(56)	–	–	–
Balance at September 30, 2012	$ 70,391	$ 102,697	$ 17,787	$ 783	$ 1,145	$ 3,703	$ 48	$ 414	$ 196,968
Balance at June 30, 2011	$ 69,718	$ 92,099	$ 14,717	$ 386	$ 3,654	$ 3,317	$ 78	$ 507	$ 184,476
Charge-offs	(31,588)	(32,183)	(1,301)	–	(3,642)	(854)	–	(594)	(70,162)
Recoveries	457	392	34	–	–	57	20	–	960
Provision for loan losses	32,820	30,066	(528)	(57)	416	1,171	(22)	676	64,542
Adjustment due to merger	–	–	–	–	–	–	–	–	–
Other	(311)	311	–	–	–	–	–	–	–
Balance at September 30, 2011	$ 71,096	$ 90,685	$ 12,922	$ 329	$ 428	$ 3,691	$ 76	$ 589	$ 179,816
Balance at December 31, 2010	$ 73,636	$ 83,759	$ 19,735	$ 415	$ 599	$ 3,117	$ 67	$ 1,001	$ 182,329
Charge-offs	(49,883)	(61,938)	(22,263)	–	(7,068)	(1,865)	(20)	(1,273)	(144,310)
Recoveries	2,049	1,384	66	825	–	116	20	–	4,460
Provision for loan losses	54,488	73,093	16,509	(901)	6,897	2,478	9	861	153,434
Adjustment due to merger	(8,845)	(5,948)	(1,101)	(10)	–	(193)	–	–	(16,097)
Other	(349)	335	(24)	–	–	38	–	–	–
Balance at September 30, 2011	$ 71,096	$ 90,685	$ 12,922	$ 329	$ 428	$ 3,691	$ 76	$ 589	$ 179,816
Loans individually evaluated for impairment	$ 31,059	$ 51,957	$ 8,315	$ –	$ –	$ 1,134	$ –	$ –	$ 92,465
Loans collectively evaluated for impairment	38,891	50,552	9,472	783	1,145	2,483	48	414	103,788
Loans acquired with deteriorated credit quality	441	188	–	–	–	86	–	–	715
Balance at September 30, 2012	$ 70,391	$ 102,697	$ 17,787	$ 783	$ 1,145	$ 3,703	$ 48	$ 414	$ 196,968
Loans individually evaluated for impairment	$ 21,896	$ 37,767	$ 1,458	$ –	$ –	$ 2,012	$ 7	$ 110	$ 63,250
Loans collectively evaluated for impairment	43,300	51,238	12,511	482	672	1,942	13	521	110,679
Loans acquired with deteriorated credit quality	755	150	81	–	–	61	–	–	1,047
Balance at December 31, 2011	$ 65,951	$ 89,155	$ 14,050	$ 482	$ 672	$ 4,015	$ 20	$ 631	$ 174,976
Recorded investment in loans outstanding:									
Loans individually evaluated for impairment	$ 380,071	$ 270,466	$ 50,765	$ –	$ –	$ 2,143,124	$ –	$ 98	$ 2,844,524
Loans collectively evaluated for impairment	9,508,284	7,658,135	1,647,969	284,966	490,838	443,566	4,060	70,892	20,108,710
Loans acquired with deteriorated credit quality	18,016	8,670	278	–	–	1,429	–	–	28,393
Ending balance at September 30, 2012	$ 9,906,371	$ 7,937,271	$ 1,699,012	$ 284,966	$ 490,838	$ 2,588,119	$ 4,060	$ 70,990	$ 22,981,627
Loans individually evaluated for impairment	$ 417,257	$ 278,187	$ 39,156	$ –	$ –	$ 2,058,195	$ 207	$ 2,778	$ 2,795,780
Loans collectively evaluated for impairment	9,400,695	7,713,687	1,687,985	213,810	310,357	418,774	2,788	81,806	19,829,902
Loans acquired with deteriorated credit quality	24,518	6,669	1,663	–	–	1,731	–	–	34,581
Ending balance at December 31, 2011	$ 9,842,470	$ 7,998,543	$ 1,728,804	$ 213,810	$ 310,357	$ 2,478,700	$ 2,995	$ 84,584	$ 22,660,263

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 September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 3,587	$ 21,336	$ 1,196	$ 26,119
Production and intermediate-term	67	30,184	51	30,302
Agribusiness				
Farm related business	–	24	–	24
Rural residential real estate	–	63	–	63
Total	$ 3,654	$ 51,607	$ 1,247	$ 56,508

	Three months ended September 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	$ 3,588	$ 20,132	$ 1,180	$ 24,900	$ 1,543	$ (877)
Production and intermediate-term	67	29,745	50	29,862	(74)	(381)
Agribusiness						
Farm related business	–	25	–	25	–	–
Rural residential real estate	–	63	–	63	65	(65)
Total	$ 3,655	$ 49,965	$ 1,230	$ 54,850	$ 1,534	$ (1,323)

	Nine months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 8,796	$ 52,528	$ 2,205	$ 63,529
Production and intermediate-term	2,622	59,091	118	61,831
Agribusiness				
Farm related business	694	3,979	321	4,994
Rural residential real estate	4	670	78	752
Total	$ 12,116	$ 116,268	$ 2,722	$ 131,106

	Nine months ended September 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	$ 8,790	$ 51,186	$ 2,144	$ 62,120	$ 2,246	$ (1,260)
Production and intermediate-term	1,831	58,959	118	60,908	1,167	(386)
Agribusiness						
Farm related business	692	3,980	321	4,993	(268)	–
Rural residential real estate	4	674	78	756	170	(129)
Total	$ 11,317	$ 114,799	$ 2,661	$ 128,777	$ 3,315	$ (1,775)

	Three months ended September 30, 2011			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 3,646	$ 27,642	$ 1,299	$ 32,587
Production and intermediate-term	522	14,217	366	15,105
Agribusiness				
Processing and marketing	–	8,996	–	8,996
Farm related business	–	25	–	25
Total agribusiness	–	9,021	–	9,021
Rural residential real estate	–	917	–	917
Other/mission related	–	–	–	–
Total	$ 4,168	$ 51,797	$ 1,665	$ 57,630

	Three months ended September 30, 2011					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 3,648	$ 27,487	$ 1,095	$ 32,230	$ 2,557	$ (1,186)
Production and intermediate-term	504	13,742	367	14,613	14	(37)
Agribusiness						
Processing and marketing	–	8,996	–	8,996	1,135	(1,134)
Farm related business	–	25	–	25	–	–
Total agribusiness	–	9,021	–	9,021	1,135	(1,134)
Rural residential real estate	–	900	–	900	(210)	(15)
Other/mission related	–	–	–	–	–	–
Total	$ 4,152	51,150	$ 1,462	$ 56,764	$ 3,496	$ (2,372)

	Nine months ended September 30, 2011			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 5,130	$ 57,637	$ 1,740	$ 64,507
Production and intermediate-term	3,622	114,216	31,675	149,513
Agribusiness				
Processing and marketing	–	10,673	–	10,673
Farm related business	–	25	–	25
Total agribusiness	–	10,698	–	10,698
Rural residential real estate	295	2,066	–	2,361
Other/mission related	–	–	1,554	1,554
Total	$ 9,047	$ 184,617	$ 34,969	$ 228,633

	Nine months ended September 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	$ 5,126	$ 60,390	$ 1,533	$ 67,049	$ 5,610	$ (3,778)
Production and intermediate-term	3,593	108,224	29,574	141,391	23,154	(25,852)
Agribusiness						
Processing and marketing	–	10,673	–	10,673	839	(1,134)
Farm related business	–	25	–	25	–	–
Total agribusiness	–	10,698	–	10,698	839	(1,134)
Rural residential real estate	295	2,032	–	2,327	(209)	(20)
Other/mission related	–	–	1,554	1,554	–	(679)
Total	$ 9,014	$ 181,344	$ 32,661	$ 223,019	$ 29,394	$ (31,463)

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may 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 September 30, 2012	Nine months ended September 30, 2012
Defaulted troubled debt restructurings:		
Real estate mortgage	$ 6,431	$ 11,548
Production and intermediate-term	6,461	16,787
Agribusiness		
Farm-related business	–	8
Rural residential real estate	41	66
Total	$ 12,933	$ 28,409

TDRs outstanding at period end totaled $268.0 million, of which $158.3 million were in nonaccrual status.

Purchased Impaired Loans

District entities acquire loans individually and in groups or portfolios. For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the holder would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or whether such loans would be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. It then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all purchased impaired loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

As discussed in Note 12:

i. Effective January 1, 2011, Farm Credit of North Florida, ACA (NFL), and Farm Credit of Southwest Florida, ACA (SWFL), merged with and into Farm Credit of South Florida, ACA (SFL), which then changed its name to Farm Credit of Florida, ACA (FCFL).
ii. Effective July 1, 2012, Chattanooga, ACA, merged with and into Jackson Purchase, ACA, which then changed its name to River Valley AgCredit, ACA (River Valley).

The mergers were accounted for under the acquisition method of accounting.

In connection with the mergers, the acquirers purchased impaired loans that are not accounted for as debt securities. The carrying amounts of those loans included in the balance sheet amounts of loans receivable at September 30, 2012, were as follows.

(dollars in thousands)	FCFL	River Valley
Real estate mortgage	$ 14,688	$ 3,328
Production and intermediate-term	4,739	3,931
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Farm-related business	278	–
Total agribusiness	278	–
Communication	–	–
Energy	–	–
Rural residential real estate	1,197	232
Total Loans	$ 20,902	$ 7,491

At September 30, 2012, the allowance for loan losses related to these loans was $715 thousand compared with $1.0 million at December 31, 2011. During the three and nine month periods ended September 30, 2012, provision expense on these loans was $570 thousand and $875 thousand compared with $3.0 million and $4.1 million for the three and nine month periods ended September 30, 2011. There were no reversals of allowance for loan losses during the periods presented for these acquired loans. See above for a summary of changes in the total allowance for loan losses for the period ended September 30, 2012.

The total of loans acquired during 2011 and 2012 for which it was probable at acquisition that all contractually required payments would not be collected are as follows.

(dollars in thousands)	2012	2011
Real estate mortgage	$ 3,488	$ 57,735
Production and intermediate-term	4,105	18,862
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	2,196
Farm-related business	–	1,734
Total agribusiness	–	3,930
Communication	–	–
Energy	–	–
Rural residential real estate	236	1,769
Total Loans	$ 7,829	$ 82,296

Certain of the loans acquired by both FCFL and River Valley in the business combinations that are within the scope of purchased impaired loan guidance are accounted for using a cash basis method of income recognition because FCFL and River Valley cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans.

At the time of merger, the real estate market in Florida was extremely unstable. The market in the former Chattanooga's footprint is similarly unpredictable. These settings make estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate.

As such, FCFL and River Valley do not have the information necessary to reasonably estimate cash flows expected to be collected to compute their yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance.

NOTE 4 — FAIR VALUE MEASUREMENT

Fair value is defined 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.

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

The classifications of the District'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 use unadjusted values from third parties 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 District 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 District'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 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. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. 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.

The District's non-agency ABS and CMO investment portfolios are also considered Level 3. The underlying loans for the ABSs are mortgage related. The underlying loans for the 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 District classified the non-agency ABS and CMO investment portfolios as Level 3 assets.

Following the market disruptions of 2008, the District 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 most of the non-agency ABS and 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.

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 is generally determined using formal appraisals of each individual property. These assets are held for sale. 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 District'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. In tandem with the latest guidance on fair value measurement and disclosure, and movement to available for sale classification, $51.9 million of Mission Related Investments were transferred from Level 2 to Level 3 status effective March 31, 2012. The District had no transfers of assets or liabilities into or out of Level 1 during the reporting period.

(dollars in thousands)	**Asset-Backed Securities**	**Non-Agency CMOs**	**Standby Letters of Credit**	**Mission Related Investments**
Balance at January 1, 2012	$ 30,324	$ 241,756	$ 3,073	$ –
Total gains or (losses) realized/unrealized:				
Included in earnings	–	(3,167)	–	–
Included in other comprehensive income	8,971	4,505	–	2,003
Purchases	–	–	–	431
Sales	–	–	–	–
Issuances	–	–	–	–
Settlements	(7,232)	(30,993)	(807)	(232)
Transfers in and/or out of level 3	–	–	–	51,885
Balance at September 30, 2012	$ 32,063	$ 212,101	$ 2,266	$ 54,087

(dollars in thousands)	Asset-Backed Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2011	$ 34,437	$ 295,526	$ 3,336
Total gains or (losses) realized/unrealized:			
Included in earnings	(2,771)	(5,096)	–
Included in other comprehensive income	2,846	7,858	–
Purchases	–	–	–
Sales	–	–	–
Issuances	–	–	503
Settlements	(4,936)	(50,754)	(609)
Transfers in and/or out of level 3	–	–	–
Balance at September 30, 2011	$ 29,576	$ 247,534	$ 3,230

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investment Securities

The fair values of predominantly all level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these level 3 assets.

Derivative Instruments

Level 3 derivative instruments consist of forward contracts that represent a hedge of an unrecognized firm commitment to purchase agency securities at a future date. The value of the forward is the difference between the fair value of the security at inception of the forward and the measurement date. Significant inputs for these valuations would be discount rate and volatility. These level 3 derivatives would decrease (increase) in value based upon an increase (decrease) in the discount rate.

Generally, for derivative instruments which are subject to changes in the value of the underlying referenced instrument, change in the assumption used for default rate is accompanied by directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayment rates.

Unobservable inputs for discount rate and volatility do not increase or decrease based on movements in other significant unobservable inputs for these level 3 instruments.

Other Property Owned/Impaired Loans

Other property owned and impaired loans are valued using appraisals, market comparable sales, replacement costs and income and expense (cash flow) techniques. Certain unobservable inputs are used within these techniques to determine the level 3 fair value of these properties. The significant unobservable inputs are primarily sensitive only to industry, geographic and overall economic conditions, and/or specific attributes of each property.

Inputs to Valuation Techniques

Management determines the District'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

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Firm commitments-when issued securities	$ 431	Broker/Consensus pricing	Offered quotes	100.375 – 104.209
Mission Related Investments	$ 54,087	Discounted cash flow	Risk adjusted spread	0.01% – 8.22%
Non-agency securities	$ 244,164	Vendor priced		
Impaired loans and other property owned	$ 776,074	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
Mission Related Investments	Discounted cash flow	Risk adjusted spread
Other investments	Discounted cash flow	Prepayment rates
		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:

	September 30, 2012					
(dollars in thousands)	**Total Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Fair Value Effects On Earnings**
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. GNMA MBS/CMOs	$ 5,098,743	$ –	$ 5,098,743	$ –	$ 5,098,743	
U.S. Govt. Agency MBS	1,531,571	–	1,531,571	–	1,531,571	
Non-Agency CMOs	212,101	–	–	212,101	212,101	
Asset-backed securities	32,063	–	–	32,063	32,063	
Mission Related Investments	54,087	–	–	54,087	54,087	
Total investments available-for-sale	6,928,565	–	6,630,314	298,251	6,928,565	
Federal funds sold, securities purchased under resale agreements, and other	148,736	–	148,736	–	148,736	
Interest rate swaps and other derivative instruments	46,239	–	45,808	431	46,239	
Assets held in trust funds	14,444	14,444	–	–	14,444	
Recurring Assets	$ 7,137,984	$ 14,444	$ 6,824,858	$ 298,682	$ 7,137,984	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	1,359	–	1,359	–	1,359	
Standby letters of credit	2,266	–	–	2,266	2,266	
Recurring Liabilities	$ 3,625	$ –	$ 1,359	$ 2,266	$ 3,625	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 639,767	$ –	$ –	$ 639,767	$ 639,767	$ (69,195)
Other property owned	124,870	–	–	136,307	136,307	(23,382)
Nonrecurring Assets	$ 764,637	$ –	$ –	$ 776,074	$ 776,074	$ (92,577)
Other Financial Instruments						
Assets:						
Cash	$ 726,812	$ 726,812	$ –	$ –	$ 726,812	
Investments held to maturity	780,397	–	626,673	225,245	851,918	
Loans	21,950,119	–	–	22,249,217	22,249,217	
Other investments	161,159	–	–	165,900	165,900	
Accrued interest receivable	224,003	–	224,003	–	224,003	
Other Assets	$ 23,842,490	$ 726,812	$ 850,676	$ 22,640,362	$ 24,217,850	
Liabilities:						
Systemwide debt securities	$ 26,462,788	$ –	$ –	$ 26,578,392	$ 26,578,392	
Accrued interest payable	35,980	–	35,980	–	35,980	
Other Liabilities	$ 26,498,768	$ –	$ 35,980	$ 26,578,392	$ 26,614,372	

(dollars in thousands)	December 31, 2011 Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. GNMA MBS/CMOs	$ 5,002,501	$ –	$ 5,002,501	$ –	$ 5,002,501	
U.S. Govt. Agency MBS	1,650,829	–	1,650,829	–	1,650,829	
Non-Agency CMOs	242,231	–	475	241,756	242,231	
Asset-backed securities	30,324	–	–	30,324	30,324	
Mission Related Investments	54,220	–	54,220	–	54,220	
Total investments available-for-sale	6,980,105	–	6,708,025	272,080	6,980,105	
Federal funds sold, securities purchased under resale agreements, and other	83,822	–	83,822	–	83,822	
Interest rate swaps and other derivative instruments	52,647	–	52,328	319	52,647	
Assets held in trust funds	11,999	11,999	–	–	11,999	
Recurring Assets	$ 7,128,573	$ 11,999	$ 6,844,175	$ 272,399	$ 7,128,573	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	22,139	–	22,139	–	22,139	
Standby letters of credit	3,073	–	–	3,073	3,073	
Recurring Liabilities	$ 25,212	$ –	$ 22,139	$ 3,073	$ 25,212	
Nonrecurring Measurements						
Assets:						
Impaired loans *	$ 709,311	$ –	$ –	$ 709,311	$ 709,311	$ (206,517)
Other property owned *	158,144	–	–	171,914	171,914	(36,203)
Nonrecurring Assets	$ 867,455	$ –	$ –	$ 881,225	$ 881,225	$ (242,720)
Other Financial Instruments **						
Assets:						
Cash	$ 1,256,345				$ 1,256,345	
Investments held to maturity	975,448				1,053,277	
Loans	21,607,419				21,908,154	
Other investments	238,552				246,822	
Accrued interest receivable	197,782				197,782	
Other Assets	$ 24,275,546				$ 24,662,380	
Liabilities:						
Systemwide debt securities	$ 27,288,439				$ 27,421,575	
Accrued interest payable	35,980				35,980	
Other Liabilities	$ 27,324,419				$ 27,457,555	

* *Amounts have been revised to agree to the current period's presentation.*

** *Accounting guidance did not provide for leveling of other financial instruments prior to 2012.*

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 $192.485 billion at September 30, 2012.

Legal actions are pending against the District in which claims for money damages are asserted. On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the combined financial position of AgFirst and District Associations.

NOTE 6 — EMPLOYEE BENEFIT PLANS

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

(dollars in thousands)	For the nine months ended September 30, 2012	2011
Pension	$ 35,392	$ 35,535
401k	4,990	4,790
Other postretirement benefits	6,199	7,763
Total	$ 46,581	$ 48,088

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

(dollars in thousands)	**Actual YTD Through 9/30/12**	**Projected Contributions for Remainder of 2012**	**Projected Total Contributions 2012**
Pensions	$ 4,810	$ 43,064	$ 47,874
Other postretirement benefits	5,177	1,560	6,737
Total	$ 9,987	$ 44,624	$ 54,611

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the District 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 District'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 District maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to lower funding costs, allow it to diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Under these arrangements, the District 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. Currently, the primary derivative type used by the District 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 at that particular issuance date.

The District 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 District 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 District's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The District 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 nine months ended September 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	–	542
Maturities/amortization	–	(493)
Terminations	–	–
Balance at end of period	$ 535	$ 115

By using derivative instruments, the District exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the District'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

District, thus creating a repayment risk for the District. When the fair value of the derivative contract is negative, the District owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the District 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 September 30, 2012 of $45.8 million was with five counterparties and represented approximately 8.56 percent of the total notional amount of interest rate swaps. The District 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 and US Government Agency securities totaling $1.3 million posted by a second counterparty related to these swaps. The District 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 District held $22.1 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The District typically enters into master agreements that contain netting provisions. These provisions allow the District 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 District had not posted collateral with respect to any of these arrangements.

The District's derivative activities, which are performed by the Bank, are monitored by the Bank's Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of its 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 nine months ended September 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 nine months ended September 30, 2011 was $5.9 million, while the amount of the gain on the Systemwide Debt Securities was $5.9 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 District 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 District'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 District's Combined Balance Sheet for each period end. At September 30, 2012, the District had committed to purchase $115.0 million in when-issued GNMA bonds that had a market value of $115.4 million, a $431 thousand increase in value. At December 31, 2011, the District 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 District'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 September 30, 2012 and December 31, 2011:

(dollars in thousands)	Balance Sheet Classification – Assets	9/30/12 Fair Value	Balance Sheet Classification - Liabilities	9/30/12 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 45,808	Other Liabilities	$ –
Forward contracts	Other Assets	431	Other Liabilities	–
Total		$ 46,239		$ –

(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 Combined Statements of Income for the nine months ended September 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 Combined Statements of Income for the nine months ended September 30, 2012 and 2011 and the amount of net gain (loss) recognized in the Combined Balance Sheets for September 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	$ 7,864	$ 2,702	Interest Income	$ 480	$ (208)	Interest Income	$ –	$ –

NOTE 8 – PERPETUAL PREFERRED STOCK

During 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 $124.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $124.8 million and record $36.6 million of additional paid-in-capital.

NOTE 9 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Cumulative balances:

(dollars in thousands)	Unrealized gains (losses) on Investments	Firm Commitments	Employee Benefit Plans	Accumulated Other Comprehensive Income
Balance at December 31, 2011	$ 139,367	$ (5,565)	$ (355,050)	$ (221,248)
Other comprehensive income	61,199	7,384	20,902	89,485
Balance at September 30, 2012	$ 200,566	$ 1,819	$ (334,148)	$ (131,763)
Balance at December 31, 2010	$ 43,337	$ (8,751)	$ (326,166)	$ (291,580)
Other comprehensive income	86,897	2,910	21,730	111,537
Balance at September 30, 2011	$ 130,234	$ (5,841)	$ (304,436)	$ (180,043)

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

	For the three months ended September 30,		For the nine months ended September 30,	
(dollars in thousands)	2012	2011	2012	2011
Other Comprehensive Income and Reclassification Amounts:				
Unrealized holding gains (losses) for period	$ 46,613	$ 38,028	$ 57,861	$ 81,191
Amounts reclassified to (gains) losses in net income	–	–	–	(2,973)
Amounts reclassified to other-than-temporary impairment in net income	158	569	3,338	8,679
Unrealized gains (losses) on securities, net	46,771	38,597	61,199	86,897
Change in value of cash flow hedges	6,355	892	7,864	2,702
Amounts reclassified to net income	(181)	(62)	(480)	208
Other	–	–	–	–
Change associated with cash flow hedges, net	6,174	830	7,384	2,910
Prior service cost from plan amendment during period	–	–	–	–
Amounts reclassified to net periodic pension costs	6,391	7,203	20,902	21,730
Net prior service cost	–	–	–	–
Net gain (loss) during period	–	–	–	–
Defined benefit post retirement plans, net	$ 6,391	$ 7,203	$ 20,902	$ 21,730

NOTE 10 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data

(dollars in thousands)	9/30/12	12/31/11
	(unaudited)	*(audited)*
Cash, cash equivalents and investment securities	$ 8,389,730	$ 9,081,841
Loans	20,131,100	20,152,066
Less: allowance for loan losses	42,583	27,714
Net loans	20,088,517	20,124,352
Other assets	338,643	371,313
Total assets	$ 28,816,890	$ 29,577,506
Bonds and notes	$ 26,260,410	$ 27,086,148
Other liabilities	103,968	342,088
Total liabilities	26,364,378	27,428,236
Perpetual preferred stock	275,250	400,000
Capital stock and participation certificates	393,802	405,767
Additional paid-in-capital	36,580	–
Retained earnings	1,553,933	1,219,506
Accumulated other comprehensive income (loss)	192,947	123,997
Total shareholders’ equity	2,452,512	2,149,270
Total liabilities and equity	$ 28,816,890	$ 29,577,506

Statement of Income Data

(dollars in thousands)	For the nine months ended September 30, 2012	2011
	(unaudited)	*(unaudited)*
Interest income	$ 619,611	$ 673,617
Interest expense	161,260	230,240
Net interest income	458,351	443,377
Provision for loan losses	10,943	58,273
Net interest income after provision for loan losses	447,408	385,104
Noninterest expense, net	89,798	90,588
Net income	$ 357,610	$ 294,516

NOTE 11 — REGULATORY ENFORCEMENT MATTERS

At September 30, 2012, the FCA had entered into written supervisory agreements with three District Associations with combined assets of approximately $1.423 billion. During November 2012, one of those Associations was notified by the FCA that it was in violation of a requirement of the FCA's supervisory conditions of merger and written supervisory agreement. The Association will take prompt corrective action by submitting a plan to the FCA to address the violation within 15 days of the date of notification. During October 2012, one additional District Association, with assets of approximately $1.600 billion at September 30, 2012, was placed under written supervisory agreement with the FCA. Those agreements require the four District Associations to take corrective actions with respect to specific areas of their operations. These enforcement actions are not expected to have a significant impact on the Bank's or District's financial condition or results of operations.

NOTE 12 – DISTRICT MERGER ACTIVITY

Effective July 1, 2012, Chattanooga, ACA, merged with and into Jackson Purchase, ACA. Jackson Purchase, ACA, then changed its name to River Valley AgCredit, ACA.

Effective January 1, 2011, Farm Credit of North Florida, ACA, and Farm Credit of Southwest Florida, ACA, merged with and into Farm Credit of South Florida, ACA. Farm Credit of South Florida then changed its name to Farm Credit of Florida, ACA. Prior to the merger, those Associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged Association. This agreement relates only to a finite pool of high risk assets of the merged Association existing at the merger date, which had a net total of approximately $130.6 million and $250.0 million at September 30, 2012 and January 1, 2011, respectively. Through this agreement, the merged Association will absorb substantial losses on these high risk assets in advance of the Bank providing financial assistance. This financial "safety net" from the Bank does not include losses that are sustained outside of the high risk asset pool. The agreement provides protection to the Bank, such as limitation on the Association's ability to make patronage distributions and certain other restrictions which are imposed if the merged Association's capital levels fail to meet minimum established levels. Assistance under the agreement, if any, is not expected to have a material impact on the financial condition of the Bank or District.

Mergers are accounted for under the acquisition method. The accounting acquirer accounts for the transaction by using its historical information and accounting policies and adding the identifiable assets and liabilities of the acquiree as of the acquisition date at their respective fair values.

As cooperative organizations, Farm Credit Associations operate for the mutual benefit of their borrowers and other customers, and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the Associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of the acquiree's stock that were converted in the merger and the shares of the acquirer's stock to which they were converted had identical rights and attributes. For this reason, the conversion of stock pursuant to the mergers occurred at a one-for-one exchange ratio (i.e., each acquiree's share was converted into one share of the acquirer's stock with an equal par value).

Management believes that because the stock in each Association is fixed in value (although subject to impairment), the Association's stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the Association identified and estimated the acquisition date fair value of the acquiree's equity interests instead of the fair value of the acquirer's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from the acquiree, was measured based on various estimates using assumptions that the Association's management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. As a result, management recorded no goodwill.

The following table reflects the fair values of the identifiable assets acquired and liabilities assumed from Chattanooga, the acquisition adjustment and the merged entity balances at July 1, 2012:

Consolidation of Assets Acquired and Liabilities Assumed at July 1, 2012

	Chattanooga	Acquisition Adjustment	Acquisition Values	Jackson Purchase	River Valley
Assets					
Cash	$ 197	$ –	$ 197	$ 958	$ 1,155
Investment securities:					
Held to maturity	–	–	–	1,793	1,793
Loans	156,489	(469)	156,020	270,479	426,499
Less: allowance for loan losses	(1,409)	1,409	–	(2,714)	(2,714)
Net loans	155,080	940	156,020	267,765	423,785
Loans held for sale	–	–	–	139	139
Other investments	38	2	40	1,180	1,220
Accrued interest receivable	1,147	–	1,147	2,876	4,023
Investments in other Farm Credit institutions	5,985	–	5,985	5,280	11,265
Premises and equipment, net	709	1,515	2,224	2,708	4,932
Other property owned	4,382	–	4,382	165	4,547
Due from AgFirst Farm Credit Bank	647	(57)	590	1,175	1,765
Other assets	145	–	145	719	864
Total assets	$ 168,330	$ 2,400	$ 170,730	$ 284,758	$ 455,488
Liabilities					
Notes payable to AgFirst Farm Credit Bank	$ 135,322	$ 952	$ 136,274	$ 226,887	$ 363,161
Subordinated debt payable to other Farm Credit Institutions	2,500	140	2,640	–	2,640
Accrued interest payable	330	–	330	471	801
Patronage refund payable	62	–	62	20	82
Advanced conditional payments	–	–	–	5,894	5,894
Other liabilities	1,981	–	1,981	3,397	5,378
Total liabilities	140,195	1,092	141,287	236,669	377,956
Commitments and contingencies					
Members' Equity					
Capital stock and participation certificates	3,163	–	3,163	2,061	5,224
Additional paid in capital	–	15,817	15,817	–	15,817
Retained earnings					
Allocated	10,463	–	10,463	20,218	30,681
Unallocated	14,509	(14,509)	–	25,810	25,810
Total members' equity	28,135	1,308	29,443	48,089	77,532
Total liabilities and members' equity	$ 168,330	$ 2,400	$ 170,730	$ 284,758	$ 455,488

The following table reflects the identifiable assets acquired and liabilities assumed from North Florida and Southwest Florida, the acquisition adjustment and the merged entity balances at January 1, 2011:

Consolidation of Assets Acquired and Liabilities Assumed at January 1, 2011

	SW Florida	North Florida	Acquisition Adjustment	Acquisition Values	South Florida	Florida
Assets						
Cash	$ –	$ 13	$ –	$ 13	$ 2,790	$ 2,803
Investment securities:						
Held to maturity	40,097	–	(544)	39,553	1,987	41,540
Loans	231,555	404,425	(34,755)	601,225	559,912	1,161,137
Less: allowance for loan losses	(4,483)	(11,614)	16,097	–	(10,679)	(10,679)
Net loans	227,072	392,811	(18,658)	601,225	549,233	1,150,458
Other investments	–	10,211	428	10,639	–	10,639
Accrued interest receivable	1,405	1,871	–	3,276	2,086	5,362
Investments in other Farm Credit institutions	6,495	9,486	–	15,981	8,716	24,697
Premises and equipment, net	867	2,575	–	3,442	5,348	8,790
Other property owned	2,173	6,310	–	8,483	4,516	12,999
Due from AgFirst Farm Credit Bank	2,337	4,038	–	6,375	4,484	10,859
Other assets	4,924	3,887	–	8,811	4,658	13,469
Total assets	$ 285,370	$ 431,202	$ (18,774)	$ 697,798	$ 583,818	$ 1,281,616
Liabilities						
Notes payable to AgFirst Farm Credit Bank	$ 240,578	$ 366,559	$ 4,691	$ 611,828	$ 454,284	$ 1,066,112
Accrued interest payable	482	823	–	1,305	1,006	2,311
Patronage refund payable	15	40	–	55	671	726
Advanced conditional payments	–	407	–	407	3,710	4,117
Other liabilities	3,312	4,345	–	7,657	5,119	12,776
Total liabilities	244,387	372,174	4,691	621,252	464,790	1,086,042
Commitments and contingencies						
Members' Equity						
Protected borrower stock	228	40	(1)	267	2,463	2,730
Capital stock and participation certificates	525	1,411	–	1,936	635	2,571
Additional paid-in-capital	–	–	7,994	7,994	(121)	7,873
Retained earnings						
Allocated	25,592	40,872	–	66,464	30,879	97,343
Unallocated	14,753	16,705	(31,458)	–	85,057	85,057
Accumulated other comprehensive income (loss)	(115)	–	–	(115)	115	–
Total members' equity	40,983	59,028	(23,465)	76,546	119,028	195,574
Total liabilities and members' equity	$ 285,370	$ 431,202	$ (18,774)	$ 697,798	$ 583,818	$ 1,281,616

Disclosures related to acquired impaired loans are contained in Note 3, *Loans and Allowance for Loan Losses*.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of the merger, but of only the acquirer for previous periods.

NOTE 13 — SUBSEQUENT EVENTS

The District has evaluated subsequent events and has determined that, except as described in Note 11 above, there are none requiring disclosure through November 8, 2012, which is the date the financial statements were issued.