Farm Credit of Northwest Florida, ACA

THIRD QUARTER 2011

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CERTIFICATION

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

Ricky K. Bitner
Chief Executive Officer

Bruce C. Harrison
Chief Financial Officer

Richard Terry
Chairman of the Board

November 7, 2011

Farm Credit of Northwest Florida, ACA

Report on Internal Control Over Financial Reporting

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

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

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

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

Ricky K Bitner

Ricky Bitner
Chief Executive Officer

Bruce C. Harrison

Bruce C. Harrison
Chief Financial Officer

November 7, 2011

Farm Credit of Northwest Florida, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Northwest Florida, ACA (Association) for the period ending September 30, 2011. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2010 Annual Report of the Association.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including forestry, row crops, livestock, peanuts, horticulture, dairies and rural homes. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of September 30, 2011, was $353,824, a decrease of $32,015, as compared to $385,839 at December 31, 2010. Net loans outstanding (gross loans net of the allowance for loan losses) at September 30, 2011, were $345,301 as compared to $375,741 at December 31, 2010. Net loans accounted for 92.28 percent of total assets at September 30, 2011, as compared to 91.38 percent of total assets at December 31, 2010. The reduction in loan volume was due to normal principal payments and movements of loans to other property owned, offset by modest new loan activity.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has deteriorated due to poor credit administration under previous management and a downturn in the overall economic environment. Nonaccrual loans were $50,769, an increase of $1,308 from $49,461 at December 31, 2010. Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2011 was $8,523 as compared to $10,098 at December 31, 2010, a decrease of $1,575. This decrease was primarily due to charge-offs against the allowance for loan losses of $2,232 offset by recoveries and reversals of $605 and provisions of $52.

The allowance for loan loss of $8,523 at September 30, 2011 was considered by management to be adequate to cover probable losses. The allowance for loan losses of $8,523 represents 2.41% of the loan balances as of September 30, 2011. The other property owned was $13,154 as of September 30, 2011 as compared to $16,930 at December 31, 2010. This net decrease of $3,776 was due to sales of $6,987, write-downs of $1,345 and acquisitions of $4,556.

Amounts due from AgFirst Farm Credit Bank decreased to $1,984 as of September 30, 2011 as compared to $3,788 as of December 31, 2010. These amounts represent patronage due from AgFirst at both September 30, 2011 and December 31, 2010. The decrease of $1,804 is primarily due to the fact that the amount due at September 30, 2011 was for three quarters and the amount due at December 31, 2010 was for four quarters along with the fact that the December amount included a receivable of $960 as a special distribution whereas the September balance included no special distribution.

RESULTS OF OPERATIONS

For the three months ending September 30, 2011

Net income for the three months ending September 30, 2011, totaled $228, as compared to net loss of $684 for the same period in 2010, an increase in income of $912. Components of the increase in net income are discussed further in the following paragraphs.

For the three months ending September 30, 2011, interest income decreased by $952 or 17.95 percent compared to the same period ending September 30, 2010. For the three months ending September 30, 2011 interest expense decreased by $901 or 28.71 percent, compared to the period ending September 30, 2010. These decreases resulted in a decrease in net interest income of $51, compared to the period ending September 30, 2010. The net increase of $51 was due to an increase of $399 related to interest rates and decrease of $450 related to volume.

The reversal of provision for loan losses for the three months ending September 30, 2011 was $95 as compared to a charge to the provision for loan losses of $2,168 for the period ending September 30, 2010, a decrease of $2,263.

Noninterest loss for the three months ending September 30, 2011 totaled $420, as compared to income of $676 for the same period of 2010, a decrease in income of $1,096. This decrease in income was primarily due to a write-down on other property owned (OPO) of $972.

Noninterest expense for the three months ending September 30, 2011 totaled $1,622, as compared to $1,418 for the same period of 2010, an increase of $204. This increase was due to an increase in salaries and benefits of $178, an increase in Insurance Fund Premiums of $3, a decrease in occupancy and equipment of $5 and an increase in other operating expenses of $28.

For the nine months ending September 30, 2011

Net income for the nine months ending September 30, 2011, totaled $1,815 as compared to net loss of $2,369 for the same period in 2010, an increase in net income of $4,184.

For the nine months ending September 30, 2011, interest income decreased by $2,620 or 16.19 percent compared to the period ending September 30, 2010. For the nine months ending September 30, 2011 interest expense decreased by $2,623 or 26.71 percent, compared to the period ending September 30, 2010. These decreases resulted in an increase in net interest income of $3(three thousand dollars), compared to the period ending September 30, 2010. The net increase of $3 was due to an increase of $1,579 related to interest rates and a decrease of $1,576 related to volume.

The provision for loan losses for the nine months ending September 30, 2011 was $52 as compared to $7,306 for the period ending September 30, 2010, a decrease of $7,254.

Noninterest income for the nine months ending September 30, 2011, totaled $91, as compared to $2,276 for the same period of 2010, a decrease of $2,185. This decrease was primarily due to a decrease in the equity in earnings of other Farm Credit institutions of $431 and an increase in losses on other property owned of $1,214, a decrease in Insurance Fund refund of $492 and a decrease in loan fees of $57. Regarding the $431 decrease in the equity in earnings of other Farm Credit institutions, general patronage income decreased by $410 due to reduced loan volume and patronage from the Capital Participation Pool income decreased by $21 due to loan losses in that pool. Regarding the $1,214 increase in losses on other property owned, $387 was increased losses incurred on sales of OPO, $6 was increases in current expenses related to OPO and $821 was due to increased write-downs of OPO to fair market value.

Noninterest expense for the nine months ending September 30, 2011, increased $432 as compared to the same period of 2010. This increase was due to an increase in salaries and benefits of $308, an increase in Insurance Fund Premiums of $13, a decrease in occupancy and equipment of $18 and an increase in other operating expenses of $129.

The prior year (2010) benefit for income taxes of $456 was due to a refund received from the IRS resulting from a net operating loss carryback to prior years. There was no benefit for income taxes for the nine months ending September 30, 2011.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2011 was $298,135 as compared to $336,920 at December 31, 2010. The reduction in notes payable to the Bank was due to normal principal payments on the direct note, offset by modest increases in the direct note due to new loan activity.

CAPITAL RESOURCES

Total members' equity at September 30, 2011 increased to $72,102 from the December 31, 2010 total of $70,405. The increase of $1,697 is primarily attributed to net income of $1,815 for the nine months ending September 30, 2011 and net retirement of equity during the current year of $118.

Total capital stock and participation certificates were $952 on September 30, 2011, compared to $1,021 on December 31, 2010. This decrease of $69 is attributed to capital stock and participation certificates issuances of $23 and retirements of $92.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of September 30, 2011 the Association's total surplus ratio and core surplus ratio were 16.80 percent and 16.09 percent, respectively, and the permanent capital ratio was 17.06 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

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

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

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 850-526-4910 ext. 103, or writing Bruce C. Harrison, Chief Financial Officer, Farm Credit of Northwest Florida, ACA, P.O. Box 7000, Marianna, Fl 32447, or accessing the website, *www.farmcredit-fl.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of Northwest Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2011 *(unaudited)*	December 31, 2010 *(audited)*
Assets		
Loans	353,824	385,839
Less: allowance for loan losses	8,523	10,098
Net loans	345,301	375,741
Accrued interest receivable	2,463	2,612
Investments in other Farm Credit institutions	8,174	8,418
Premises and equipment, net	1,277	1,322
Other property owned	13,154	16,930
Due from AgFirst Farm Credit Bank	1,984	3,788
Other assets	1,843	2,378
Total assets	$ 374,196	$ 411,189
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 298,135	$ 336,920
Accrued interest payable	702	935
Patronage refund payable	31	31
Other liabilities	3,226	2,898
Total liabilities	302,094	340,784
Commitments and contingencies		
Members' Equity		
Protected borrower stock	5	7
Capital stock and participation certificates	947	1,014
Retained earnings		
Allocated	51,887	51,936
Unallocated	19,263	17,448
Total members' equity	72,102	70,405
Total liabilities and members' equity	$ 374,196	$ 411,189

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Operations

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Interest Income				
Loans	$ 4,413	$ 5,365	$ 13,568	$ 16,188
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	2,238	3,138	7,195	9,817
Other	–	1	–	1
Total interest expense	2,238	3,139	7,195	9,818
Net interest income	2,175	2,226	6,373	6,370
Provision for (reversal of allowance for) loan losses	(95)	2,168	52	7,306
Net interest income (loss) after provision for (reversal of allowance for) loan losses	2,270	58	6,321	(936)
Noninterest Income				
Loan fees	62	89	156	213
Patronage refund from other Farm Credit institutions	642	789	2,227	2,658
Gains (losses) on other property owned, net	(1,125)	(203)	(2,307)	(1,093)
Gains (losses) on sales of premises and equipment, net	–	–	6	–
Insurance Fund refunds	–	–	–	492
Other noninterest income	1	1	9	6
Total noninterest income (expense)	(420)	676	91	2,276
Noninterest Expense				
Salaries and employee benefits	1,132	954	3,195	2,887
Occupancy and equipment	77	82	232	250
Insurance Fund premium	60	56	179	166
Other operating expenses	353	326	991	862
Total noninterest expense	1,622	1,418	4,597	4,165
Income (loss) before income taxes	228	(684)	1,815	(2,825)
Provision (benefit) for income taxes	–	–	–	(456)
Net income (loss)	$ 228	$ (684)	$ 1,815	$ (2,369)

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2009	$ 14	$ 1,138	$ 52,016	$ 17,750	$ 70,918
Net income (loss)				(2,369)	(2,369)
Protected borrower equity retired	(7)				(7)
Capital stock/participation certificates issued/(retired), net		(125)			(125)
Retained earnings retired			(69)		(69)
Balance at September 30, 2010	$ 7	$ 1,013	$ 51,947	$ 15,381	$ 68,348
Balance at December 31, 2010	$ 7	$ 1,014	$ 51,936	$ 17,448	$ 70,405
Net income				1,815	1,815
Protected borrower equity retired	(2)				(2)
Capital stock/participation certificates issued/(retired), net		(67)			(67)
Retained earnings retired			(49)		(49)
Balance at September 30, 2011	$ 5	$ 947	$ 51,887	$ 19,263	$ 72,102

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The amendment is intended to provide for more information about an employer's financial obligations to multiemployer pension and other postretirement benefit plans, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented.

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

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

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

In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This amendment temporarily delayed the effective date of the disclosures about TDRs required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about TDRs coincides with the guidance for determining what constitutes a TDR as described above.

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

Effective January 1, 2010, the Association adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 6).

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

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	September 30, 2011	December 31, 2010
Real estate mortgage	$ 211,514	$ 245,787
Production and intermediate-term	136,470	133,649
Agribusiness		
Processing and marketing	665	684
Farm-related business	136	150
Total agribusiness	801	834
Rural residential real estate	5,039	5,569
Total Loans	$ 353,824	$ 385,839

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

	September 30, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 52,739	$ –	$ 4,947	$ 268	$ 1,077	$ 268	$ 58,763
Production and intermediate-term	–	28,677	–	–	3,495	1,436	3,495	30,113
Agribusiness								
Processing and marketing	–	21	–	–	–	–	–	21
Total	$ –	$ 81,437	$ –	$ 4,947	$ 3,763	$ 2,513	$ 3,763	$ 88,897

	December 31, 2010							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 916	$ 50,890	$ –	$ 5,883	$ 5,258	$ 1,149	$ 6,174	$ 57,922
Production and intermediate-term	–	33,118	–	–	3,584	1,462	3,584	34,580
Agribusiness								
Processing and marketing	–	1,030	–	–	–	–	–	1,030
Total	$ 916	$ 85,038	$ –	$ 5,883	$ 8,842	2,611	$ 9,758	$ 93,532

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at September 30, 2011 and indicates that approximately 34.28 percent of loans had maturities of less than one year:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 40,315	$ 70,171	$ 101,028	$ 211,514
Production and intermediate-term	80,368	49,519	6,583	136,470
Agribusiness				
Processing and marketing	(10)	675	–	665
Farm-related business	1	–	135	136
Total agribusiness	(9)	675	135	801
Rural residential real estate	625	2,140	2,274	5,039
Total Loans	$ 121,299	$ 122,505	$ 110,020	$ 353,824

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

	September 30, 2011	December 31, 2010
Real estate mortgage:		
Acceptable	79.71%	79.64%
OAEM	8.77	5.01
Substandard/doubtful/loss	11.52	15.35
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	56.23%	62.11%
OAEM	12.28	13.96
Substandard/doubtful/loss	31.49	23.93
	100.00%	100.00%
Agribusiness:		
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	99.27%	99.33%
OAEM	–	–
Substandard/doubtful/loss	0.73	0.67
	100.00%	100.00%

	September 30, 2011	December 31, 2010
Total agribusiness:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/los	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	74.53%	78.89%
OAEM	2.65	2.68
Substandard/doubtful/loss	22.82	18.43
	100.00%	100.00%
Total Loans:		
Acceptable	70.64%	73.59%
OAEM	10.02	8.07
Substandard/doubtful/loss	19.34	18.34
	100.00%	100.00%

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

September 30, 2011	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,675	$ 11,109	$ 12,784	$ 200,454	$ 213,238	$ –
Production and intermediate-term	5,649	28,617	34,266	102,921	137,187	–
Agribusiness						
Processing and marketing	–	(10)	(10)	677	667	–
Farm-related business	–	1	1	136	137	–
Total agribusiness	–	(9)	(9)	813	804	–
Rural residential real estate	1	25	26	5,032	5,058	–
Total	$ 7,325	$ 39,742	$ 47,067	$ 309,220	$ 356,287	$ –

December 31, 2010	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 3,344	$ 21,608	$ 24,952	$ 222,606	$ 247,558	$ –
Production and intermediate-term	6,244	16,231	22,475	111,989	134,464	–
Agribusiness						
Processing and marketing	–	(10)	(10)	697	687	–
Farm-related business	1	–	1	149	150	–
Total agribusiness	1	(10)	(9)	846	837	–
Rural residential real estate	90	243	333	5,259	5,592	–
Total	$ 9,679	$ 38,072	$ 47,751	$ 340,700	$ 388,451	$ –

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

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

	September 30, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	$ 14,797	$ 26,624
Production and intermediate-term	35,915	22,135
Agribusiness		
Processing and marketing	(10)	(10)
Farm-related business	1	1
Total agribusiness	(9)	(9)
Rural residential real estate	66	711
Total nonaccrual loans	$ 50,769	$ 49,461
Accruing restructured loans:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	–
Agribusiness		
Processing and marketing	–	–
Farm-related business	–	–
Total agribusiness	–	–
Rural residential real estate	490	–
Total accruing restructured loans	$ 490	$ –
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	–
Agribusiness		
Processing and marketing	–	–
Farm-related business	–	–
Total agribusiness	–	–
Rural residential real estate	–	–
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 51,259	$ 49,461
Other property owned	13,154	16,930
Total nonperforming assets	$ 64,413	$ 66,391
Nonaccrual loans as a percentage of total loans	14.35%	12.82%
Nonperforming assets as a percentage of total loans and other property owned	17.55%	16.48%
Nonperforming assets as a percentage of capital	89.34%	94.30%

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

	September 30, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	$ 9,730	$ 11,054
Past due	41,039	38,407
Total impaired nonaccrual loans	50,769	49,461
Impaired accrual loans:		
Restructured	490	–
90 days or more past due	–	–
Total impaired accrual loans	490	–
Total impaired loans	$ 51,259	$ 49,461

Additional impaired loan information as of September 30, 2011 and December 31, 2010, is as follows:

	September 30, 2011			Quarter Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 8,800	$ 9,126	$ 389	$ 9,417	$ 14	$ 9,270	$ 67
Production and intermediate-term	24,991	26,991	5,190	26,745	38	26,328	189
Agribusiness							
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–
Total agribusiness	–	–	–	–	–	–	–
Rural residential real estate	25	242	4	27	–	26	–
Total	$ 33,816	$ 36,359	$ 5,583	$ 36,189	$ 52	$ 35,624	$ 256
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 5,997	$ 8,190	$ –	$ 6,418	$ 8	$ 6,318	$ 45
Production and intermediate-term	10,924	11,673	–	11,690	17	11,507	83
Agribusiness							
Processing and marketing	(10)	1,228	–	(10)	–	(10)	–
Farm-related business	1	1,536	–	1	–	1	–
Total agribusiness	(9)	2,764	–	(9)	–	(9)	–
Rural residential real estate	531	747	–	568	1	560	4
Total	$ 17,443	$ 23,374	$ –	$ 18,667	$ 26	$ 18,376	$ 132
Total impaired loans:							
Real estate mortgage	$ 14,797	$ 17,316	$ 389	$ 15,835	$ 22	$ 15,588	$ 112
Production and intermediate-term	35,915	38,664	5,190	38,435	55	37,835	272
Agribusiness							
Processing and marketing	(10)	1,228	–	(10)	–	(10)	–
Farm-related business	1	1,536	–	1	–	1	–
Total agribusiness	(9)	2,764	–	(9)	–	(9)	–
Rural residential real estate	556	989	4	595	1	586	4
Total	$ 51,259	$ 59,733	$ 5,583	$ 54,856	$ 78	$ 54,000	$ 388

	December 31, 2010			Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 16,649	$ 19,355	$ 2,709	$ 14,627	$ 166
Production and intermediate-term	15,415	16,951	2,593	13,542	153
Agribusiness					
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Total agribusiness	–	–	–	–	–
Rural residential real estate	711	740	515	625	7
Total	$ 32,775	$ 37,046	$ 5,817	$ 28,794	$ 326
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 9,975	$ 9,719	$ –	$ 8,763	$ 99
Production and intermediate-term	6,720	7,359	–	5,904	67
Agribusiness					
Processing and marketing	(10)	1,229	–	(9)	–
Farm-related business	1	1,535	–	1	–
Total agribusiness	(9)	2,764	–	(8)	–
Rural residential real estate	–	–	–	–	–
Total	$ 16,686	$ 19,842	$ –	$ 14,659	$ 166
Total impaired loans:					
Real estate mortgage	$ 26,624	$ 29,074	$ 2,709	$ 23,390	$ 265
Production and intermediate-term	22,135	24,310	2,593	19,446	220
Agribusiness					
Processing and marketing	(10)	1,229	–	(9)	–
Farm-related business	1	1,535	–	1	–
Total agribusiness	(9)	2,764	–	(8)	–
Rural residential real estate	711	740	515	625	7
Total	$ 49,461	$ 56,888	$ 5,817	$ 43,453	$ 492

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 September 30, 2011 and December 31, 2010.

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

	September 30, 2011				
	Real Estate Mortgage	Production and Intermediate -term	Agribusiness	Rural Residential Real Estate	Total
Allowance for credit losses:					
Balance at December 31, 2010	$ 5,488	$ 4,026	$ 10	$ 574	$ 10,098
Charge-offs	(1,257)	(632)	(74)	(269)	(2,232)
Recoveries	561	–	–	44	605
Provision for loan losses	(2,228)	2,508	71	(299)	52
Other	(311)	311	–	–	–
Balance at September 30, 2011	$ 2,253	$ 6,213	$ 7	$ 50	$ 8,523
September 30, 2011 allowance ending balance:					
Loans individually evaluated for impairment	$ 389	$ 5,190	$ –	$ 4	$ 5,583
Loans collectively evaluated for impairment	$ 1,864	$ 1,023	$ 7	$ 46	$ 2,940
Recorded investment in loans outstanding:					
Ending Balance at September 30, 2011	$ 213,238	$ 137,187	$ 804	$ 5,058	$ 356,287
September 30, 2011 recorded investment ending balance:					
Loans individually evaluated for impairment	$ 14,797	$ 35,915	$ (9)	$ 66	$ 50,769
Loans collectively evaluated for impairment	$ 198,441	$ 101,272	$ 813	$ 4,992	$ 305,518

	December 31, 2010					
	Real Estate Mortgage	Production and Intermediate -term	Agribusiness	Rural Residential Real Estate	Other Loans (including mission-related)	Total
Allowance for credit losses:						
Balance at December 31, 2009	$ 4,903	$ 3,162	$ 18	$ 554	$ 87	$ 8,724
Charge-offs	(3,278)	(1,462)	(135)	(162)	–	(5,037)
Recoveries	302	–	–	–	–	302
Provision for loan losses	3,561	2,326	127	182	(87)	6,109
Balance at December 31, 2010	$ 5,488	$ 4,026	$ 10	$ 574	$ –	$ 10,098
December 31, 2010 allowance ending balance:						
Loans individually evaluated for impairment	$ 2,709	$ 2,593	$ –	$ 515	$ –	$ 5,817
Loans collectively evaluated for impairment	$ 2,779	$ 1,433	$ 10	$ 59	$ –	$ 4,281
Recorded investment in loans outstanding:						
Ending Balance at December 31, 2010	$ 247,558	$ 134,464	$ 837	$ 5,592	$ –	$ 388,451
December 31, 2010 recorded investment ending balance:						
Loans individually evaluated for impairment	$ 30,497	$ 30,844	$ (9)	$ 712	$ –	$ 62,044
Loans collectively evaluated for impairment	$ 217,061	$ 103,620	$ 846	$ 4,880	$ –	$ 326,407

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the nine months ended September 30, 2011	2010
Pension	$ 486	$ 459
401(k)	81	77
Other postretirement benefits	91	76
Total	$ 658	$ 612

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

	Actual YTD Through 9/30/11	Projected Contributions For Remainder of 2011	Projected Total Contributions 2011
Pension	$ –	$ 531	$ 531
Other postretirement benefits	99	52	151
Total	$ 99	$ 583	$ 682

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

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

NOTE 4 – NOTES PAYABLE TO AGFIRST FARM CREDIT BANK

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings, and capital covenants. The Association failed to meet its borrowing base margin and earnings covenants under the GFA at December 31, 2010. The defaults allow the Bank, in conjunction with the Farm Credit Administration, to accelerate repayment of all indebtedness. During the first quarter of 2011, the Bank approved a temporary waiver of the December 31, 2010 defaults. The Bank has allowed the Association to continue to operate under special credit agreements (SCAs) pursuant to its GFA during 2011. At September 30, 2011, the Association was in compliance with the borrowing base margin and earnings covenants under the current SCA, which expires January 31, 2012. In addition, the Association would be in compliance with the earnings covenant under the GFA at September 30, 2011.

NOTE 5 – REGULATORY CAPITALIZATION REQUIREMENTS

The Farm Credit Administration's (FCA's) capital adequacy regulations require the Association to achieve permanent capital of 7.00 percent of risk-adjusted assets and off-balance-sheet commitments. The FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of 7.00 percent and of core surplus as a percentage of risk-adjusted assets of 3.50 percent. The Association met all the regulatory required minimum capital ratios at September 30, 2011. The Association's permanent capital, total surplus, and core surplus ratios at September 30, 2011 were 17.06 percent, 16.80 percent and 16.09 percent, respectively. At December 31, 2010, the Association's core surplus ratio of 3.06 percent was not in compliance with the regulatory required minimum core surplus ratio of 3.50 percent. The Association was in compliance with the other required minimum capital ratios at December 31, 2010.

NOTE 6 – FAIR VALUE MEASUREMENT

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

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

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

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association has no Level 1 assets or liabilities measured at fair value on a recurring basis at September 30, 2011.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at September 30, 2011.

Level 3

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

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

Other property owned is classified as a Level 3 asset at September 30, 2011. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned.

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

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

	September 30, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 28,544	$ 28,544	$ (1,394)
Other property owned	$ –	$ –	$ 7,087	$ 7,087	$ (1,983)

	December 31, 2010				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 26,958	$ 26,958	$ (7,322)
Other property owned	$ –	$ –	$ 16,649	$ 16,649	$ (2,174)

NOTE 7 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Loans, net of allowance	$ 347,764	$ 349,925	$ 378,353	$ 376,365
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 298,837	$ 302,055	$ 337,855	$ 339,666

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

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

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

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

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

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

C. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 2.18 percent of the issued stock of the Bank as of September 30, 2011 net of any reciprocal investment. As of that date, the Bank's assets totaled $30.3 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $295 million during the first nine months of 2011.

   In addition, the Association has an investment of $426 related to other Farm Credit institutions.

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

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

NOTE 8 – REGULATORY ENFORCEMENT MATTERS

On April 20, 2011 the Farm Credit Administration (FCA) entered into a written supervisory agreement with the Board of Directors of the Association. The previous written supervisory agreement between the FCA and the Association, dated April 6, 2010, is terminated by the April 20, 2011 agreement. The written supervisory agreement dated April 20, 2011 requires the Association to take corrective actions and other actions with respect to certain areas of its operations, including board operations, director fiduciary duties, board consultant functions, nominating committee assistance, strategic and business planning, staffing, internal controls, asset quality, loan portfolio management, allowance for loan loss, collateral risk, capital, earnings and liquidity.

See further discussion of the written supervisory agreement in the "Regulatory Matters" section of Management's Discussion and Analysis of Financial Condition and Results of Operation contained in this Quarterly Report on page 4.

NOTE 9 – SUBSEQUENT EVENTS

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