2011
Annual Report

Farm Credit
of Northwest Florida
Helping Rural America Grow

FARM CREDIT OF NORTHWEST FLORIDA, ACA

2011 ANNUAL REPORT

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Management

Rick Bitner....President & Chief Executive Officer
Bruce C. Harrison....Chief Financial Officer
Jay Baker....Relationship Manager
Chuck Thiele....Credit Administrator
Deandrea Barber....Policy and Operations Manager
John Gregory....Special Assets Manager

Board of Directors

Richard Terry....Chairman
Melvin Adams....Vice Chairman
Fred Beshears....Director
Bob Calvert....Director
James R. Dean....Director
James G. Ditty....Director
Cindy Eade....Director
Mark Fletcher....Director
Copeland Griswold....Director
James Marshall....Director
T. B. Walker....Director

Message from the Chief Executive Officer

I am pleased to report that, with your continued support, the Association returned to profitability in 2011. Net income improved from operating losses of $3.8 million in 2009 and $302 thousand in 2010 to $1.772 million in net earnings in 2011. Although we are pleased with this positive trend, the end result is still not where it needs to be or we feel it should be. In 2011, earnings continued to be negatively affected by the significant costs and challenges associated with distressed loans.

Overall, credit quality is beginning to improve as the Association staff has successfully assisted cooperative borrowers with the restructure of their loans and worked others who did not have the capacity or the inclination to meet their obligations through the necessary collection channels. The Association never wishes to pursue foreclosure action. However, when given no other viable option or alternative, at times legal collection is necessary to protect the interests of the other stockholders. The Association's ability to sell acquired property in 2011 not only helped to improve the Association's financial condition, but our sales results also provide some optimism that the real estate market in the Florida Panhandle may be stabilizing. At yearend, the Association's Permanent Capital Ratio was nearing 18%, which is improved over prior years and is significantly above the regulatory minimum of 7% and the Board-established minimum capital level. In 2011, the Association honored all of its loan commitments. In fact, the Association continued to seek new borrowers to strengthen and enhance credit quality and earnings. Capital is believed to be sufficient to not only support the current level of risk in the loan portfolio but to also allow the staff to pursue new lending initiatives for 2012.

Again, we are pleased to report these positive indicators, but the Association continues to spend a great deal of money as well as staff time and effort on managing distressed assets. Although conditions are certainly improving, the Association continues to operate under a Special Credit Agreement with its funding bank, AgFirst Farm Credit Bank, and is also under the special supervision of its regulator, the Farm Credit Administration. In light of the continued risk in the loan portfolio, as well as the continued uncertainty in the general economy, your Board of Directors determined that it is not financially prudent to declare a patronage distribution from 2011 earnings. The Board, which is comprised mainly of Association stockholders, remains committed to the cooperative business model and fully intends to make appropriate patronage distributions and revolve allocated surplus when the risk in the loan portfolio is further reduced and earnings are believed to be sufficient to both properly capitalize the Association and allow the return of a portion of profits to you, our stockholder.

Thank you for your support during these difficult economic times. We ask you to please consider the Association first for any future credit needs. Whether that need is for operating funds, irrigation or other equipment, building or purchasing your dream home, or some other type of agribusiness or rural endeavor – your Association wants to be your primary source of financing. If you are purchasing rural real estate for your own long-term use, the Association still provides competitive fixed rate financing for real estate loans too. Interest rates are low, and your Association is seeking sound loan opportunities to hasten the day when we can resume patronage and allocated surplus payments. Would you please help us through your business and the referral of others to your Association?

Again, the Board, management, and staff are sincerely appreciative of your support over the years. Thank you for taking the time to review the information provided in this report. If you need assistance with your account or with a loan application, please feel free to contact your loan officer or our Senior Relationship Manager, Jay Baker, at jbaker@farmcredit-fl.com or 800-527-0647. If you have questions regarding the Association or the information contained in this Annual Report, please contact me directly at rbitner@farmcredit-fl.com or 800-527-0647.

Rick Bitner
Chief Executive Officer

March 13, 2012

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this Annual Report have been prepared by management of Farm Credit of Northwest Florida, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

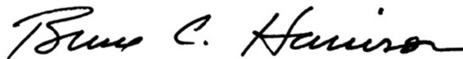
Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been examined by independent certified public accountants, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2011 Annual Report of Farm Credit of 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.

Richard Terry
Chairman of the Board

Ricky K. Bitner
Chief Executive Officer



Bruce C. Harrison
Chief Financial Officer

March 13, 2012

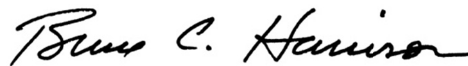
Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2011. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2011.

Ricky K. Bitner
Chief Executive Officer



Bruce Harrison
Chief Financial Officer

March 13, 2012

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2011	2010	December 31, 2009	2008	2007
Balance Sheet Data					
Cash	$ 284	$ —	$ —	$ 537	$ 1,375
Loans	328,868	385,839	441,596	494,521	516,104
Less: allowance for loan losses	6,578	10,098	8,724	3,294	4,396
Net loans	322,290	375,741	432,872	491,227	511,708
Investments in other Farm Credit institutions	7,221	8,418	9,506	10,257	10,372
Other property owned	12,349	16,930	15,464	1,355	—
Other assets	9,009	10,100	11,586	12,739	14,267
Total assets	$ 351,153	$ 411,189	$ 469,428	$ 516,115	$ 537,722
Notes payable to AgFirst Farm Credit Bank*	$ 275,586	$ 336,920	$ 393,791	$ 435,228	$ 455,811
Accrued interest payable and other liabilities with maturities of less than one year	3,570	3,864	4,719	6,014	11,053
Total liabilities	279,156	340,784	398,510	441,242	466,864
Protected borrower stock	5	7	14	16	24
Capital stock and participation certificates	941	1,014	1,138	1,231	1,349
Retained earnings					
Allocated	51,831	51,936	52,016	52,055	49,411
Unallocated	19,220	17,448	17,750	21,571	20,074
Total members' equity	71,997	70,405	70,918	74,873	70,858
Total liabilities and members' equity	$ 351,153	$ 411,189	$ 469,428	$ 516,115	$ 537,722
Statement of Operations Data					
Net interest income	$ 8,609	$ 8,505	$ 9,697	$ 13,125	$ 14,413
Provision for loan losses	110	6,109	11,296	6,907	2,822
Noninterest income (expense), net	(6,727)	(2,698)	(2,217)	(1,001)	219
Net income (loss)	$ 1,772	$ (302)	$ (3,816)	$ 5,217	$ 11,810
Key Financial Ratios					
Rate of return on average:					
Total assets	0.46%	(0.07)%	(0.78)%	0.99%	2.22%
Total members' equity	2.46%	(0.43)%	(5.10)%	6.93%	16.63%
Net interest income as a percentage of average earning assets	2.73%	2.25%	2.19%	2.64%	2.83%
Net (chargeoffs) recoveries to average loans	(0.997)%	(1.136)%	(1.242)%	(1.577)%	—%
Total members' equity to total assets	20.50%	17.12%	15.11%	14.51%	13.18%
Debt to members' equity (:1)	3.88	4.84	5.62	5.89	6.59
Allowance for loan losses to loans	2.00%	2.62%	1.98%	0.67%	0.85%
Permanent capital ratio	17.80%	14.03%	13.26%	12.52%	12.22%
Total surplus ratio	17.53%	13.78%	13.02%	12.27%	11.96%
Core surplus ratio	16.79%	3.06%	12.45%	11.75%	11.46%
Net Income Distribution					
Estimated patronage refunds:					
Cash	$ —	$ —	$ —	$ 753	$ 4,991
Nonqualified retained earnings	—	—	—	3,012	6,655
Distribution of allocated surplus	$ —	$ —	$ —	$ —	$ 632

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2012.*

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Farm Credit of Northwest Florida, ACA, (Association) for the year ended December 31, 2011 with comparisons to the years ended December 31, 2010 and December 31, 2009. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Northwest Florida. Refer to Note 1, "Organization and Operations," of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***wwwfarmcredit-fl.com***, or by calling 1-850-526-4910, extension 103, or writing Bruce C. Harrison, Farm Credit of Northwest Florida, P.O. Box 7000, Marianna, Fl. 32447. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

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

AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to the USDA information in this section refer to the entire U.S. agricultural market and are not limited to the Association.

The February 2012 USDA forecast estimates 2011 farmers' net cash income, which is a measure of the cash income after

payment of business expenses, increased to $108.7 billion, up $16.4 billion from 2010 and up $28.4 billion from its 10-year average of $80.3 billion. The improvement in 2011 farmers' net cash income was due primarily to increases in crop receipts of $24.0 billion and livestock receipts of $24.6 billion, partially offset by a $34.7 billion increase in cash expenses.

The February 2012 USDA forecast for the farm economy, as a whole, projects 2012 farmers' net cash income to decrease to $96.3 billion, a $12.4 billion decrease from 2011, but $16.0 billion above the 10-year average. The forecasted decrease in farmers' net cash income for 2012 is primarily due to an expected increase in cash expenses of $11.3 billion, while crop and livestock receipts remain near the 2011 levels.

For 2012, the USDA expects crop receipts to increase slightly, as increases in corn and most other feed grains offset declines in wheat, hay, vegetables/melons, and fruits/tree nuts. The drought in parts of the U.S. in 2011 is expected to depress sales of many crops through its negative impact on production. Livestock receipts are expected to decline marginally in 2012. While receipts for cattle are anticipated to increase as demand for beef in the Asian markets remains strong, dairy receipts are expected to decrease as milk prices are forecast to be lower.

The following table sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2008 to December 31, 2011:

Commodity	12/31/11	12/31/10	12/31/09	12/31/08
Corn	$5.86	$4.82	$3.60	$4.11
Soybeans	$11.50	$11.60	$9.80	$9.24
Wheat	$7.19	$6.45	$4.87	$5.95
Beef Cattle	$120.00	$98.10	$78.50	$79.70

The USDA's income outlook varies depending on farm size, geographic location, and commodity specialties. The USDA classifies all farms into three primary categories: commercial farms, intermediate farms and rural residential farms. Commercial farms, large scale farms with gross sales greater than $250 thousand, represent about 12 percent of U.S. farms by number but represent over 80 percent of total U.S. farm production. Commercial farms are expected to have a 17 percent increase in average net cash income in 2011. Intermediate farms, defined as ones in which the primary occupation is farming and gross sales are between $10 thousand and $250 thousand, represent 28 percent of U.S. farms by number and account for 18 percent of total production. Intermediate farms are expected to have a14 percent increase in average net cash income in 2011. The remaining 60 percent of U.S. farms are classified as rural residential farms where the primary occupation is not farming and the farms produce less than $10 thousand in sales. Rural residential farms only account for 2 percent of total production.

In addition to farmers' net cash income, off-farm income is an important source of funds for the repayment of farm debt obligations and is less subject to cycles in agriculture. However, off-farm income can be directly affected by conditions in the general economy. The USDA measures farm household income, which is defined as earnings from farming activities plus off-farm income. Nearly 100 percent of farm household income for operators of rural residential farms and approximately 90 percent of farm household income for intermediate farms is generated from off-farm sources. Further, USDA data suggests that approximately 24 percent of farm household income for commercial farms is generated from off-farm income.

According to the USDA's February 2012 forecast, farm sector asset values and farm debt are forecasted to rise modestly in 2012. Farm sector asset values are expected to rise 5.6 percent from $2.34 trillion for 2011 to $2.47 trillion in 2012 primarily due to an increase in the value of farm real estate. The values of machinery/equipment, purchased inputs and financial assets are expected to rise modestly in 2012, while the value of livestock and poultry inventories is expected to decline slightly. The main factors driving higher farmland values are the continued strength of commodity prices, low interest rates, expectations of continued favorable net returns and growth in agricultural exports. Farmer's equity (farm business assets minus debt) is expected to rise 5.7 percent from $2.10 trillion in 2011 to $2.22 trillion in 2012.

One measure of the financial health of the agricultural sector used by the USDA is the assessment of farmers' utilization of their capacity to repay debt (actual debt as a percentage of maximum debt that can be supported by farmers' current income). Higher capacity utilization rates indicate tighter cash flow positions and, consequently, higher exposure to financial risk. Lower rates indicate healthier cash flow and financial positions. These estimates do not take into account, however, off-farm income sources. Since 1970, debt repayment capacity utilization has ranged from a low of 37 percent in 1973 to a high of 110 percent in 1981, and has remained relatively stable since 1987, averaging about 50 percent. The forecast for 2012 predicts farmers' utilization to increase from 40 percent in 2011 to approximately 47 percent for 2012.

As estimated by the USDA in February 2012, the Farm Credit System's market share of farm business debt, defined as debt incurred by those involved in on-farm agricultural production, grew to 41.4 percent at December 31, 2010 (latest available data), as compared with 40.1 percent at December 31, 2009. Overall, farm business debt is forecasted to increase in 2012 to $254.1 billion from $244.8 billion in 2011.

In general, agriculture has experienced a sustained period of favorable economic conditions due to stronger commodity prices, higher farm land values, and, to a lesser extent, government support programs. To date, the Association's financial results have remained favorable as a result of the favorable agricultural economic conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, the Association's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general and agricultural economies remain volatile given the state of the global economy. Certain agriculture sectors, as described more fully in this *Management Discussion and Analysis*, experienced significant financial stress during 2011 and could continue to experience financial stress in 2012. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, "Summary of Significant Accounting Policies," of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

  Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate for 2009 was selected by reference to analysis and yield curves of the plans' actuary and industry norms.

ECONOMIC CONDITIONS

Production agriculture in the Florida Panhandle area continues to ride the wave of increased profitability that has swept across many farming areas. Despite hot, dry weather conditions that were prevalent for much of the 2011 growing season, area growers generally produced good cotton and peanut yields. Many crop farmers in the territory have irrigation, and timely rains received later in the growing season benefited dry land production.

Prices for cotton and peanuts remain high due to production losses in Texas and parts of the southeast. Corn prices have moderated in recent weeks due to vacillations in the projected size of the 2011 harvest and estimated crop carryover, but both corn and soybean prices should remain at profitable levels despite a projected 11% increase in input costs during 2012. The Texas drought has also ramped up demand and prices for hay and feed crops.

Cattle and dairy producers are glad to see some recent moderation in grain prices, but most of these producers have enjoyed high prices for much of 2011 which allowed them to operate at profitable levels despite higher grain and protein prices. Milk prices are expected to decrease during 2012, and beef producers will have to compete against a growing supply of other meats that may negatively impact the profitability of area cattle operations.

Increased profits have contributed to much greater demand for cropland, and some timberland tracts with good soils are being cleared and put back into crop production. Land rents for irrigated and dry farmland have increased, and with steadily increasing agricultural input prices, the potential for an agricultural asset bubble seems to be an increasing possibility. Many farmers are adding to their investments in irrigation in

order to bolster or protect production, but finding suitable sustainable water supplies may become more problematic if the Texas drought moves eastward or if more normal rainfall patterns do not return to the Florida Panhandle.

The reduced demand for lumber resulting from lower home and commercial construction continues to weigh on the Florida forestry and nursery industries, and solid wood markets continue to struggle. Even with increased wood exports to Asia and stronger demand from the home improvement industry, forest product prices are not expected to return to any semblance of pre-recession prices in the short run. Nurseries have seen sales volumes decrease over the last four or five years and have begun to see a shortage of inventory in a few areas. This has led to stabilizing and even a few price increases. It is anticipated that 2012 will be a year of improving market conditions for most of the nursery owners in Northwest Florida.

Prices for the underlying land component of timber properties have also experienced a significant downward adjustment. Based on sales information gleaned from across the southeastern U.S., it appears that bare land prices for timberland have fallen some 50% from the peak levels reached in 2007. In retrospect, it is fairly obvious that speculative investing in timberland, often by real estate professionals, drove prices substantially higher than the underlying economics of wood production would support. Those heady land prices have now moderated, and bare land values have fallen to $600 to $800 per acre in most areas.

Much of the Florida Panhandle acreage is devoted to timber production, and the timber-related industries may face several more years of lean economic times. One possible exception to the rather dreary forecast is the biomass industry, particularly the emerging wood pellet firms that are manufacturing fuel-type products for export. If oil prices stay in the $100 per barrel range, biomass fuel products may capture an even larger market share and create increased demand for pulpwood and chips.

Due to the Association's commodity concentration very little seasonal variations are experienced. Forty six percent of the portfolio is forestry which rarely faces seasonal variations. Some seasonal variation is seen in row crop loans. That is seen as the borrowers begin to make loan draws at the beginning of planting time and continue to draw up until harvest. These row crops loans are then usually paid off very soon after harvest.

Economic Conditions Summary

There are a number of factors that create a mood of guarded optimism for both the U.S. and the Florida economy as the recession-driven financial deleveraging for both individuals and firms appears to be moving into its final stages. Real estate asset values have adjusted downward, and demand for housing and undeveloped real nonfarm real estate seems to be slowly improving. Job growth is evident, and the agricultural economy continues to benefit from what may well be a new plateau, at least for the foreseeable future, for commodity prices.

The improvement in the economy is still tenuous, however, and global events, particularly the steps taken to resolve the sovereign debt problems in Europe and lower demand for U.S. exports due to changes in the attitudes and actions of developing nations, could reduce growth rates to very modest levels. Continued economic progress is likely, but growth may be more puny and plodding than robust and rapid.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

The gross loan volume of the Association as of December 31, 2011, was $328,868, a decrease of $56,972 or 14.77 percent as compared to $385,839 at December 31, 2010 and a decrease of $112,728 or 25.53 percent as compared to $441,596 at December 31, 2009. Net loans outstanding (gross loans net of the allowance for loan losses) at December 31, 2011, was $322,290 as compared to $375,741 at December 31, 2010 and $432,872 at December 31, 2009. Net loans accounted for 91.78 percent of total assets at December 31, 2011 as compared to 91.38 percent of total assets at December 31, 2010 and 92.21 percent of total assets at December 31, 2009.

The diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	December 31, 2011		2010		2009	
	(dollars in thousands)					
Real estate mortgage	$ 196,777	59.83%	$ 245,787	63.70%	$ 277,260	62.79%
Production and intermediate-term	125,166	38.06%	133,649	34.64	148,638	33.66
Rural residential real estate	4,788	1.46%	5,569	1.44	7,460	1.69
Processing and marketing	2,005	.61%	684	.18	772	.17
Farm-related business	131	.04%	150	.04	259	.06
Other	–	–	–	–	7,207	1.63
Total	$ 328,867	100.00%	$ 385,839	100.00%	$ 441,596	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The geographic distribution of the accruing loan volume by branch for the past three years is as follows.

Branch	12/31/11	12/31/10	12/31/09
Commercial Credits	22.15%	24.51%	31.01%
Milton	25.24	23.44	26.71
Tallahassee	14.97	17.89	14.44
Marianna	15.03	14.08	14.06
Monticello	13.04	13.25	12.53
Special Assets	7.55	6.83	1.25
Country Mortgages (new in 2011)	1.55	–	–
Capital Markets (new in 2011)	.47	–	–
Total	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are forestry, row crops, livestock, peanuts and horticulture which constitute 78 percent of the entire portfolio.

Commodity Group	2011		December 31, 2010		2009	
	(dollars in thousands)					
Forestry	$ 153,280	46%	$ 189,573	49%	$ 216,706	49%
Row Crops	48,029	15	56,065	14	57,404	13
Livestock	23,620	7	30,224	8	35,051	8
Peanuts	18,239	5	19,077	5	24,341	5
Horticulture	15,512	5	21,726	6	23,268	5
Dairy	11,869	4	11,431	3	11,591	3
Rural Homes	5,105	2	6,428	2	7,470	2
Poultry	178	–	243	–	297	–
Other	54,084	16	52,624	13	67,282	15
Total	$ 329,916	100%	$ 387,391	100%	$ 443,410	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration in the forestry industry. Although a large percentage of the loan portfolio is concentrated in this industry, a high percentage of the repayment source is dependent on resources other than the commodity, which reduces overall risk exposure.

The decrease in loan volume for the twelve months ending December 31, 2011 was due to normal pay-down on loans, early pay-off on several large loans, foreclosures and a decrease in financing demands.

During 2011, the Association continued activity in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which strengthened our capital position.

Loan Participations	2011	2010	2009
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 1,387	$ 916	$ 955
Participations Purchased – Non-FCS Institutions	3,700	8,842	9,715
Participations Sold	(77,335)	(93,532)	(103,375)
Total	$ (72,248)	$ (83,774)	$ (92,705)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2011.

MISSION-RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. At that time the FCA approved the Rural America Bonds pilot program under the mission-related investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2011, 2010 and 2009 the Association had $0, $0, and $7,237 respectively, in Rural America Bonds, and they are classified as Loans on the Consolidated Balance Sheets.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250,000. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2011	2010	2009
Acceptable & OAEM	83.87%	81.69%	88.87%
Substandard	12.38	12.76	9.47
Doubtful	3.75	5.55	1.66
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

	12/31/11	12/31/10	12/31/09
	(dollars in thousands)		
High-risk Assets			
Nonaccrual loans	$ 32,942	$ 49,461	$ 34,503
Accruing loans 90 days past due	–	–	1,188
Total high-risk loans	32,942	49,461	35,691
Other property owned	12,349	16,930	15,464
Total high-risk assets	$ 45,291	$ 66,391	$ 51,155
Ratios			
Nonaccrual loans to total loans	10.02%	12.82%	7.81%
High-risk assets to total assets	12.90%	16.15%	10.90%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased by $16,519 or 33.40 percent in 2011. This decrease was the result of repayments of $19,472, foreclosures of $10,391, reinstatements to accrual status of $4,962, charge-offs of $4,378 and new nonaccruals of $22,684.

The Association held "Other Property Owned" (OPO) at December 31, 2011 valued at $12,349 compared to $16,930 at December 31, 2010 and $15,464 at December 31, 2009. The Association acquired OPO valued at $10,840 during 2011, sold OPO valued at $13,166 during 2011 and wrote down the value of OPO by $2,255 during 2011.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses is determined according to generally accepted accounting principles.

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

Allowance for Loan Loss Activity:	2011	2010	2009
	(dollars in thousands)		
Balance at beginning of year	$ 10,098	$ 8,724	$ 3,294
Charge-offs:			
Real estate mortgage	(1,470)	(3,278)	(2,741)
Production and intermediate term	(2,499)	(1,462)	(1,522)
Agribusiness	(85)	(135)	(1,360)
Rural residential real estate	(307)	(162)	(623)
Total charge-offs	(4,361)	(5,037)	(6,246)
Recoveries:			
Real estate mortgage	658	302	380
Production and intermediate term	26	–	–
Rural residential real estate	47	–	–
Total recoveries	731	302	380
Net (charge-offs) recoveries	(3,630)	(4,735)	(5,866)
Provision for (reversal of allowance for) loan losses	110	6,109	11,296
Balance at end of year	$ 6,578	$ 10,098	$ 8,724
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(.997)%	(1.136)%	(1.242)%

The net loan charge-offs were primarily associated with real estate loans where land values had fallen significantly over the last three to four years.

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

Allowance for Loan Losses by Type	December 31, 2011	2010	2009
	(dollars in thousands)		
Real estate mortgage	$ 2,072	$ 5,488	$ 4,903
Production and intermediate-term	4,427	4,026	3,162
Agribusiness	19	10	18
Rural residential real estate	60	574	554
Other	–	–	87
Total loans	$ 6,578	$ 10,098	$ 8,724

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	December 31, 2011	2010	2009
Total loans	2.00%	2.62%	1.98%
Nonperforming loans	19.79%	20.42%	24.16%
Nonaccrual loans	19.79%	20.42%	25.28%

Please refer to Note 3, "Loans and Allowance for Loan Losses," of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2011, totaled $1,772, an increase in net income of $2,074 as compared to net loss of $302 for the same period of 2010 and an increase in net income of $5,588 as compared to a net loss of $3,816 for the same period of 2009. Interest income for the year ended December 31, 2011, was $17,823, a decrease of $3,352 or 15.83 percent as compared to $21,175 for the same period of 2010. Interest income decreased by $5,384 for the period ended December 31, 2010, compared to December 31, 2009. Major components of the changes in net income for the past two years are outlined in the following table.

Change in Net Income:	2011-2010	2010-2009
	(dollars in thousands)	
Net income (loss) prior year	$ (302)	$ (3,816)
Increase (decrease) in net income due to:		
Interest income	(3,352)	(5,384)
Interest expense	3,456	4,192
Net interest income	104	(1,192)
Provision for loan losses	5,999	5,187
Noninterest income	(1,241)	332
Net gain or losses	(1,580)	(1,605)
Noninterest expense	(660)	336
Provision for income taxes	(548)	456
Total changes in income	2,074	3,514
Net income (loss)	$ 1,772	$ (302)

Net Interest Income

Net interest income was $8,609, $8,505 and $9,697 in 2011, 2010 and 2009, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
	(dollars in thousands)			
12/31/11 - 12/31/10				
Interest income	$ (3,374)	$ (175)	$ 197	$ (3,352)
Interest expense	(1,954)	(1,502)	–	(3,456)
Change in net interest income	$ (1,420)	$ 1,327	$ 197	$ 104
12/31/10 - 12/31/09				
Interest income	$ (3,907)	$ (1,536)	$ 59	$ (5,384)
Interest expense	(1,888)	(2,304)	–	(4,192)
Change in net interest income	$ (2,019)	$ 768	$ 59	$ (1,192)

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended December 31, 2011	2010	2009	Percentage Increase/(Decrease) 2011/2010	2010/2009
	(dollars in thousands)				
Loan fees	$ 232	$ 319	$ 189	(27.27)%	68.78%
Patronage refund from other Farm Credit Institutions	3,498	4,141	4,411	(15.53)	(6.12)
Gains (losses) on Other Property Owned	(4,178)	(2,591)	(986)	61.25	162.88
Other noninterest income	18	522	50	(96.55)	944.00
Total noninterest income	$ (430)	$ 2,391	$ 3,664	(117.98)%	34.77%

The decrease in non-interest income of $2,821 in 2011 compared to 2010 is primarily due to losses on Other Property Owned (OPO) of $4,178 in 2011 compared to $2,591 in 2009 (an increase in losses of $1,587), reductions in patronage refunds from other Farm Credit Institutions of $643 and reductions in other noninterest income of $504.

Regarding the increase of $1,587 in losses on Other Property Owned in 2011 as compared to 2010, losses on the sale of OPO increased by $622, write downs in the value of OPO increased by $945 and current expenses related to OPO increased by $20.

Regarding the reductions of $643 in patronage refunds from other Farm Credit Institutions, general patronage from AgFirst decreased by $447 due to decreased volume, the special distribution from AgFirst decreased by $154, primarily due to decreased volume, and patronage from other Farm Credit Institutions decreased by $42.

The decrease in other noninterest income of $504 primarily resulted from an insurance refund of $492 received in 2010 and no refund in 2011.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended December 31, 2011	2010	2009	Percentage Increase/(Decrease) 2011/2010	2010/2009
	(dollars in thousands)				
Salaries and employee benefits	$ 4,287	$ 3,866	$ 3,607	10.89%	7.18%
Occupancy and equipment	308	329	315	(6.38)	4.44
Insurance Fund premiums	232	221	847	4.98	(73.91)
Other operating expenses	1,378	1,129	1,112	22.05	1.53
Total noninterest expense	$ 6,205	$ 5,545	$ 5,881	11.90%	(5.71)%

Salaries and employee benefits increased in 2011, as compared with 2010, primarily due to increased costs associated with employee benefit plans, merit increases, and employee staffing levels.

Other operating expenses increased primarily due to increased purchased services, which included legal fees, various audit functions and consultants.

Income Taxes

The Association recorded a provision for income taxes of $92 for the year ended December 31, 2011, as compared to a benefit of $456 from income taxes for 2010 and no provision or benefit for 2009. The provision for 2011 was related to years prior to 2011. The 2010 benefit was related to federal income tax refunds received due to the carry-back of the 2009 net operating loss to prior years. Refer to Note 2, "Summary of Significant Accounting Policies, Income Taxes," of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/11	For the 12 Months Ended 12/31/10	For the 12 Months Ended 12/31/09
Return on Average Assets	.46%	(0.07)%	(.78)%
Return on Average Members' Equity	2.46%	(0.43)%	(5.10)%
Net Interest Income as a Percentage of Average Earning Assets	2.73%	2.25%	2.19%
Net (Charge-offs) Recoveries to Average Loans	(.997)%	(1.136)%	(1.242)%

The return on average assets and return on average members' equity for the year ended 12/31/2011 improved as compared to the returns for the year ended 12/31/2010. The improvement was due to the net income of $1,722 for the year ended 12/31/2011 as compared to the loss of $302 for the year ended 12/31/2010.

A key factor in the growth of net income for future years will be improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue the improvement shown in recent years and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

The total notes payable to the Bank at December 31, 2011, were $275,586 as compared to $336,920 at December 31, 2010 and $393,791 at December 31, 2009. The 2011 decrease of 18.20 percent compared to December 31, 2010 was due to decreased loan volume and the 2010 decrease of 14.44 percent compared to December 31, 2009, was also attributable to decreased loan volume.

The average volume of notes payable to the Bank was $309,343 and $365,765 for the years ended December 31, 2011 and 2010, respectively. Refer to Note 7, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association's Return on Assets for the year ended December 31, 2011 was .46 percent, which is in violation of the association's General Financing Agreement with the Bank. The Bank has waived the violation through December 31, 2012. However, the association is subject to a Special Credit Agreement with the Bank through that date. Funds have continued to be available for our financing activities.

The Association had no lines of credit outstanding with third parties as of December 31, 2011.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes

funds management techniques to identify, quantify and control risk associated with the loan portfolio.

The Association's net interest income as a percentage of average earning assets increased from 2.25% for the year ended 12/31/2010 to 2.73% for the year ended 12/31/2011. Much of the increase was due loan modifications where the Association could raise its spread and at the same time lower the borrower's interest expense.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 7, "Notes Payable to AgFirst Farm Credit Bank" of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's ability to access capital of the Association is discussed in Note 4 of the Notes to the Consolidated Financial Statements.
The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 7, "Notes Payable to AgFirst Farm Credit Bank" included in this Annual Report.

The Association has an agreement with the Bank whereby the Bank may provide certain fiscal, personnel, accounting, marketing, communication, public relations, information management, computer and certain other services as requested by the Association. Specific services currently provided by the Bank to the Association, in which each service provided would constitute a material interdependent relationship, include information management, computer services/hosting, payroll processing and related payroll tax services.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2011 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2011, increased 2.26 percent to $71,997 from the December 31, 2010, total of $70,405. At December 31, 2010, total members' equity decreased .72 percent from the December 31, 2009 total of $70,918. The increase for 2011 was primarily attributed to the net income for the year ended December 31, 2011. The decrease for 2010 was primarily attributed to the net loss for the year ended December 31, 2010.

Total capital stock and participation certificates were $946 on December 31, 2011, compared to $1,021 on December 31, 2010 and $1,152 on December 31, 2009. These decreases were attributed to the excess of stock and participations certificate retirements over the issuance of new instruments.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standard for all the ratios except for core surplus as of December 31, 2010. The association had previously submitted a plan to restore the core surplus to the minimum regulatory standard to the FCA. The core surplus returned to the minimum regulatory requirement as of February 28, 2011.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2011	2010	2009	Regulatory Minimum
Permanent Capital	18.54%	14.03%	13.26%	7.00%
Total Surplus	18.26%	13.78%	13.02%	7.00%
Core Surplus	17.50%	3.06%	12.45%	3.50%

At December 31, 2011, the Association's permanent capital ratio, average at-risk capital divided by average risk adjusted assets calculated in accordance with FCA regulations, exceeded the regulatory minimum of 7.00 percent. The total surplus ratio exceeded the regulatory minimum requirement of 7.00 percent and the core surplus ratio exceeded the minimum requirement of 3.50 percent.

See Note 8, "Members' Equity," of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 8, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared no patronage distributions in 2011 or in 2010. No patronage distributions were declared in 2011 due to the losses incurred by the association in 2010 and 2009. The losses were incurred due to the deterioration in loan quality and the resulting provision for loan losses in those years. Future patronage distribution would be dependent upon the improvement of the association's overall financial condition. The Board of Directors has not changed the association's policies and practices related to the patronage program and the Board of Directors wishes to continue past practices of patronage distribution. The

Association's supervisory agreement with the FCA directs that the Association's board of directors will not authorize, and management will not make, patronage or dividend distributions from past, current, or future earnings without the prior written consent of the FCA's Director of the Risk Supervision Division.

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

The Association's mission includes providing sound and constructive credit to Young, Beginning and Small (YBS) farmers and ranchers. Northwest Florida's Board and management are responsible to ensure that the Association is making appropriate efforts to implement its YBS program. The Board approves YBS policies as well as the annual business plan which outlines strategies to accomplish Northwest Florida's YBS mission, and goals by which to measure the YBS program's performance.

DEFINITIONS

Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the date the loan is originally made.

Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products whose experience in farming or ranching as of the date the loan is originally made is 10 years or less.

Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

YBS PROGRAM STRATEGIES

The Association's Young, Beginning and Small Farmer and Rancher Program (YBS) complies with statutory and regulatory requirements which include program goals for both quantitative measurements of the number and volume of YBS loans and strategies the Association will employ to meet program objectives.

The Association's Young, Beginning and Small Farmer and Rancher (YBS) Policy provides that loans for this segment will be underwritten according to normal commodity-based standards. Since these groups may traditionally have weaker credit factors, Association staff works with otherwise qualified YBS applicants to offset these weaknesses through additional obligors, additional pledges of collateral or through obtaining FSA loan guarantees. Farm Credit of Northwest Florida is an approved FSA lender. The Association's Board and management continue to evaluate the Young, Beginning and Small Farmer and Rancher (YBS) Policy to determine if additional lending inducements can be added in a manner that still provides for safe and constructive financing.

In 2011, the Association continued to place emphasis on "hands-on" involvement in agricultural events and affiliations in our chartered territory that have a tie to young, beginning, and small farmers and ranchers. During the year, the Association met with many of the agriculturally-focused affiliates and educational systems within the territory to identify needs and opportunities that can be addressed by the Association's Young, Beginning, and Small Farmer and Rancher Program. The Association actively participated in agricultural events through sponsorships, speaking engagements, as exhibitors, volunteers, and through staff attendance. In total, the Association participated in fifty-five YBS designated events with financial sponsorship of $11,500.

Our members can expect this level of participation to continue throughout 2012.

Other 2012 strategies for meeting program objectives include:

1) Implementation of additional YBS lending inducements that may provide for new program incentives such as pricing and fee considerations for Young, Beginning, and Small farmers and ranchers.
2) YBS Advisory Council meetings to provide input regarding future policy development and program planning.
3) Research into a "Development Farm" at the association's headquarters for use by local agricultural school groups.
4) A new Internship Program in cooperation with agriculturally affiliated colleges.
5) Association representation of the Farm Credit System in local college's career and job fairs.

YBS PROGRAM QUANTITATIVE GOALS

At year-end 2010, based on economic conditions, the Association anticipated an approximate 19.25% decrease in the volume of YBS loans during 2011. This was due to a particular segment of borrowers with larger credit exposures that met YBS program coding criteria who were distressed and it was likely that their accounts would be settled through forced liquidation. In actuality, the Association's decrease in YBS loan volume totals was 22% by volume. For 2012, the Association anticipates that YBS loan volume will decrease further before stabilizing. The following charts show: Chart (1) the specific reduction in the number of loans and the volume of loans in the Young, Beginning, and Small categories during 2011; Chart (2) the 2011 year-end number and volume of loans by Young, Beginning and Small categories; and Chart (3) 2012 quantitative goals for YBS.

Chart (1) Specific Reductions in YBS Categories in 2011:

	Decrease # Loans	Decrease Loan Volume
Young	1.79%	31.80%
Beginning	9.81%	23.29%
Small	13.84%	19.59%

Chart (2) Association Volume and Number of YBS Loans as of December 31, 2011:

	# of All YBS Loans	Volume All YBS Loans
Young	110	$19,276,933
Beginning	478	$111,897,082
Small	747	$194,039,570

Chart (3) 2012 Quantitative Goals for YBS:

	# of All YBS Loans	Volume All YBS Loans
Young	107	$19,033,491
Beginning	459	$102,550,548
Small	699	$176,221,248

For purposes of the above tables, a loan could be included in more than one of the categories depending on the characteristics of the underlying borrower.

ASSOCIATION COMPARISON TO YBS TERRITORIAL DEMOGRAPHICS

Association Comparison (12/31/2011) to 2007 Ag Census Data:

	2007 Ag Census	Association Loans "In Territory"	Market Share Percentage
Young	270	106	39.26%
Beginning	2,314	422	18.24%
Small	7,845	681	8.68%

The 2007 USDA Ag Census data has been used as a benchmark to measure penetration of the Association's YBS program efforts. The Ag Census is taken every five years by mailing report forms to farm and ranch operators. For purposes of the census, a farm is any place from which $1,000 or more of agricultural products were produced or sold, or normally would have been sold during the census year. This is similar to how the Association defines an agricultural borrower. The Association's designation as being "in territory" is tied to the borrower having a farm operation headquartered or some agricultural involvement in one of the eighteen counties that comprises the Association's chartered territory. For purposes of the comparison above, the Ag Census data and the Association's numbers are not determined using exactly the same methodology. Market share percentages may be distorted due to a farm (that would be counted once in the census) potentially having more than one loan with the association.

YBS PROGRAM SUMMARY

In summary, the Association will place continued emphasis on involvement in agricultural activities occurring within its territory, in implementing additional loan inducements to help YBS farmers and ranchers receive sound and constructive credit, and in reaching out in partnership to area educational systems that have agriculturally-affiliated programs. The Association will work diligently to meet its YBS Mission statement of ***Helping agriculture harvest a better tomorrow by cultivating Young, Beginning, and Small Farmers today.***

REGULATORY 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.

Conditions and events that led to the need for this agreement include rapid growth between 2003-2007, deterioration of loan quality, liberal loan structures, lack of oversight to credit policies and procedures, lack of sufficient staff training, high staff turn-over and lack of diversification in the portfolio (concentration in real estate lending).

The Association has taken action to correct weaknesses in its board operations, strategic planning, staffing, internal controls, asset quality, loan portfolio management, portfolio risk, capital, earnings and liquidity; however, all necessary improvements have not been realized as of April 20, 2011.

The board will address the requirements of the agreement dated April 20, 2011 by establishing a collateral risk program, conducting an assessment of board and staff training needs and providing the necessary training, and by establishing improved credit policy direction and guidance.

The written supervisory agreement dated April 20, 2011 requires the Board to continue to engage an Independent Board Consultant to advise and counsel the Board in fulfilling its fiduciary responsibilities and to perform other functions as specified in the agreement.

The Association's supervisory agreement with the FCA requires that all new loans must be of Acceptable quality at origination under the Uniform Classification System. However, the agreement provides that the Institution may extend or renew loans of less than acceptable quality to existing customers if such extensions or renewals are done in accordance with sound and documented risk management strategies.

The Association remained under written supervisory agreement as of the date of this report.

On August 18, 2011, the FCA published for comment an amendment to the regulations governing investments held by institutions of the System. Comments were due November 16, 2011. The stated objectives of the proposed rule are to:

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

On August 26, 2011, the FCA published for comment an advance notice of proposed rulemaking regarding various references to and requirements of reliance on crediting ratings issued by NRSROs of a security or money-market instrument. Section 939A of the Dodd-Frank Act requires Federal agencies to remove any reference to or requirement of reliance upon credit ratings, and substitute in their place standards of creditworthiness that they deem appropriate for the regulations.

The FCA seeks public comment on alternatives to the use of credit ratings in the regulations. Comments were due November 25, 2011.

On November 1, 2011, the FCA published for comment the draft Second Amended and Restated Market Access Agreement (MAA), which is an Agreement between the Banks and the Funding Corporation. Comments were due December 1, 2011. No comments were received by the FCA with respect to the draft MAA. The MAA was executed by the Banks and the Funding Corporation with an effective date of January 1, 2012.

On December 27, 2011, the FCA published for comment a proposed rule to amend the liquidity regulation. The purpose of the proposed rule is to strengthen liquidity risk management at System Banks, improve the quality of assets in the liquidity reserve, and bolster the ability of System Banks to fund their obligations and continue their operations during times of economic, financial, or market adversity. Comments were due by February 27, 2012. The stated objectives of the rule are to:

- improve the capacity of Banks to pay their obligations and fund their operations by maintaining adequate liquidity to withstand various market disruptions and adverse financial or economic conditions;
- strengthen liquidity management at all Banks;
- enhance the marketability of assets that Banks hold in their liquidity reserve;
- establish a supplemental liquidity buffer that Banks can draw upon during an emergency and that is sufficient to cover the Bank's liquidity needs beyond the 90-day liquidity reserve; and
- strengthen each Bank's contingency funding plan.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 of the Consolidated Financial Statements, "Organization and Operations," included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Florida:

Location	Description	Form of Ownership
5052 Hwy. 90 East Marianna	Administrative/ Branch	Owned
5336 Stewart Street, SE Milton	Branch	Owned
925 W. Washington Monticello	Branch	Owned
2015 Centre Pointe Blvd. Suites 103 and 104 Tallahassee	Branch	Leased

The leased property is leased from a Limited Liability Company (LLC) which is partially owned by an individual who is now an association employee. The original lease was executed before the individual was an employee of the association and was negotiated at prevailing market rates. The monthly lease payment during 2011 was $3,875. The lease expired on December 31, 2011 and a new lease is anticipated to be executed in early 2012 with monthly payments of $3,512. The employee is not a member of senior management.

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 12 of the Consolidated Financial Statements, "Commitments and Contingencies," and Note 16 of the Consolidated Financial Statements, "Regulatory Enforcement Matters," included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 8 of the Consolidated Financial Statements, "Members' Equity," included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities and intrasystem financial assistance rights and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 7, 9 and 12 of the Consolidated Financial Statements included in this Annual Report.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the executive officers of the Association:

Senior Officers	Position & Other Business Interests
Rick Bitner	*President & Chief Executive Officer* since January 1, 2009.
Bruce C. Harrison	*Chief Financial Officer* since June 2002.
Jay Baker	*Relationship Manager* since February 2009.
Chuck Thiele	*Credit Administrator* since January 2010.
Deandrea Barber	*Policy and Operations Manager* since January 2010. *Loan Operations Manager* from December 2005 thru December 2009.

The business experience for the past five years for executive officers is with the Farm Credit System, except for Rick Bitner, who for the five years prior to March 2007 was a Senior Vice President of a commercial bank and Chuck Thiele who was a Vice President of a commercial bank prior to January 2010.

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2011, 2010 and 2009, is as follows:

Name of Individual or Number in	Year	Annual				
		Salary	Bonus	Deferred Comp.	Perq./ Other*	Total
Rick Bitner	2011	$ 190,007	$ 11,801	$ 26,137	$ –	$ 227,945
Rick Bitner	2010	$ 186,049	$ –	$ –	$ –	$ 186,049
Rick Bitner	2009	$ 175,631	$ –	$ –	$ –	$ 175,631
6	2011	$ 631,788	$ 38,215	$ 96,443	$ 14,321	$ 780,767
7	2010	$ 721,296	$ –	$ 97,333	$ 12,724	$ 831,353
6	2009	$ 589,090	$ –	$ 103,312	$ 15,531	$ 707,933

** Primarily comprised of group life insurance premiums and automobile compensation*

In addition to base salary, all employees have the ability to earn additional compensation under an incentive plan. The association incentive plan is designed to motivate employees to complete actions needed to achieve business plan goals during the fiscal year. In 2011, the incentive plan was materially restructured from prior years to place heightened attention on areas of credit administration and earnings.

The incentive plan includes three components – the main incentive plan (referred to hereafter as the "Incentive Plan") that is available for all qualifying staff members; a component available to the association's loan officers to incent business development activity (referred to hereafter as the "Business Development/Loan Officer Plan"); and a component available to staff members of the Special Assets Department to incent the resolution of non-earning assets such as nonaccrual loans and association acquired property in a way that provides a measureable improvement to the association's consolidated financial position (referred to hereafter as the "Special Assets Plan").

The Incentive Plan was measured and available for payment twice during the plan year; once for performance from January through June and then once for performance from July through December. These periods are referenced in the plan and throughout this narrative as performance cycles. To participate in the Incentive Plan an employee must not have terminated employment prior to nor be on probation at the end of the performance cycle and the employee must have satisfactory performance as measured by their most recent performance appraisal.

The Incentive Plan was measured utilizing delinquency rates, credit quality, and return on assets. Under the Incentive Plan, points are awarded for meeting various benchmarks such as each month delinquencies were below a certain percentage of the accruing loan portfolio, the percentage of the association's loan's that carried a credit quality grade of "Acceptable" or "Other Assets Especially Mentioned", and the association's Return on Assets ratio. The performance against the established benchmarks translated to a certain number of awarded points and, based upon how many points were achieved for the performance cycle, qualifying staff members were awarded under the Incentive Plan a percentage of their total compensation for the performance cycle. The percentage awarded was based upon the total points earned during the performance cycle as well as the employee's salary grade.

Under the Incentive Plan, the percentage of compensation that could be awarded ranged from 3% to 15% of the employee's total compensation during the performance cycle. Senior officers did not specifically earn higher awards under the plan by virtue of their position. However, generally speaking, a senior officer would usually be expected to have a high salary grade based upon their increased level of responsibility and accountability for association performance. For 2011, awards under the Incentive Program ranged from 3% to 6% for the first performance cycle (January through June) and 3% to 6% for the second performance cycle (July through December). Payment to employees covered under this plan will be made as soon as practicable following the performance cycle.

Under the Special Assets Plan, staff assigned to the association's Special Assets Department, earned points for the total number of non-earning assets (nonaccrual loans or association acquired property) that were resolved during the performance cycle. The CEO and CFO were delegated authority to review the accounts put forth under the plan and to determine whether or not the action resulted in measurable improvement to the association's financial position. The Special Assets Plan was measured and incentives earned on the same performance cycle as the Incentive Plan. Points earned translated to an incentive award ranging from 2% to 6% of the staff member's total compensation for the performance cycle. The Special Assets Plan was not based upon salary grade and senior officers, if subject to the plan, received the same incentive percentage as other qualifying staff members.

Under the Business Development/Loan Officer Plan, association lenders earned points for developing new business by originating loans to new and existing borrowers. This plan was measured with incentive awarded on an annual basis at the end of the Plan Year, which corresponds with the association's fiscal year. Standards for being able to include a loan in the plan were established including it meeting regulatory requirements for borrower eligibility, loan review must show acceptable credit administration standards were met, and the loan cannot be downgraded from an "Acceptable" credit classification during the Plan Year. Loan officers were awarded points based on their performance against a pre-determined business development quota. Based upon the points earned by each loan officer, that individual was able to earn an incentive award ranging from 2% to 7.5% of their total compensation for the Plan Year. If a loan officer failed to achieve a certain percentage of their predetermined quota, no points were awarded and that loan officer received no incentive under this plan. The association's Senior Relationship Manager, a senior officer, participated in the plan based upon the cumulative results of business development activity for all loan officers. As a result, senior officer participation in the Business Development/Loan Officer Plan did not exceed that which was available to other participating staff members.

During 2011, under the incentive plan and related components, as described above, the CEO earned $11,800 and senior officers earned $38,215. Those amounts are presented as a bonus in the table above.

Bonuses are shown in the year earned, which may be different than the year of payment.

In 2005 the association adopted an Employee Retention Plan to provide for the retention of critical personnel in an increasingly tight labor market, to avoid the cost of replacing capable and experienced lending and leadership staff, to protect the association from loss of trade secrets and its customer base, to ensure continuity of staff for the benefit of the Association's

borrowers and to provide a benefit that was similar in value to long-term retention and stock option plans of Association competitors. In the years 2006 through 2009 benefit amounts were determined for the Plan participants and approved by the board of directors. The benefits amounts for 2006, 2007 and 2008 were $201,000, $239,000 and $205,500 (in whole dollars), respectively. These stated amounts were for all employees, not just senior officers. The Plan provided that an employee must remain with the association for four years to become vested in the plan. Others provisions were specified for retirements and other separations. The Plan provided that the deferred benefit earn interest at simple interest at the four-year Treasury rate.

The amounts shown in the table above under the Deferred Compensation column represent the retention amounts earned, including interest, as of December 31 for each year presented for the CEO, senior officers and any other employee whose total compensation was in the top five of the association's compensated employees. Amounts earned are not the same as the amounts paid out during the year.

The current CEO was a participant of the plan only for the plan that was established for 2008, with vesting occurring on December 31, 2011.

Senior officers and other association employees are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking, registration fees and other expenses associated with travel on official business. Total reimbursement to senior officers for business expenses during 2011 were less than one thousand dollars. Some senior officers and other association employees are assigned an association automobile to be utilized in the performance of association duties. Personal usage of the assigned automobile is allowed on a limited basis. Any personal usage is considered a benefit to the officer or employee and is included as income to the individual in accordance with IRS regulations. Total benefit to senior officers for the personal usage of association automobiles during 2011 was $ 9,522.

A copy of the expense and incentive plan policies is available to shareholders of the association upon request. Disclosure of information on the total compensation earned in 2011 by any senior officer, or by any individual included in the total, is available to shareholders upon request.

Directors

The following chart details the directors serving in 2011, their current term of service and total cash compensation paid:

Name of Director	Current Term	Total Compensation
Richard Terry, ***Chairman***	2011-2014	$10,600
Melvin Adams, ***Vice-Chairman***	2009-2012	6,500
Fred H. Beshears	2010-2013	8,000
Bob Calvert, *Appointed Director*	2010-2013	20,750
James R. Dean, *Outside Director*	2011-2014	3,750
James G. Ditty	2010-2013	9,850
Cindy Eade	2011-2014	15,250
D. Mark Fletcher, *Outside Director*	2011-2014	2,500
Copeland Griswold	2010-2013	7,750
William Carroll Lamb, *Outside Director*	2008-2011	5,500
James P. Marshall	2011-2014	1,000
James C. Moulton	2009-2012	10,250
George T. VanPelt	2008-2011	4,750
T.B. Walker	2009-2012	6,250
Total		$ 112,700

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years.

Richard Terry, Chairman, owns and operates a row crop farm in Madison County. This has been his principal occupation for the past five years. He serves on the board for Madison County Farm Bureau, Farmers' Co-op, Inc., Live Oak, Florida and Madison County Tobacco Warehouse. He currently serves as The Farm Credit of Northwest Florida chairman of the board and as chairman of the executive committee and the steering committee.

Melvin T. Adams, Vice-Chairman owns and operates a farm in Jackson and Holmes Counties and has been a cattle and row crop farmer for the past five years. Mr. Adams is on the board of directors of SOWEGA Gin (a cotton gin). He currently serves as vice chairman of the Association's board of directors and chairman of the compensation committee.

Fred H. Beshears' primary occupation for the past five years has been owner and operator of Simpson Nurseries/Jefferson Growers. Mr. Beshears serves as a director of the Farmers and Merchants Bank (a Commercial Bank) headquartered in Monticello, Fl. He has served as a Director for the Florida Pecan Growers Association. He is a resident of Jefferson County, Florida. Mr. Beshears serves as chairman of the board loan committee.

Robert A. (Bob) Calvert, Jr. is an appointed director and a Certified Management Consultant. For 30 years he has been the owner of Calvert Consulting, a Bank Management and Board Consulting firm that specializes in new bank charters, strategic planning, recruiting bank executive officers, director training, and performing management and director studies for the financial industry regulators. In addition to the director fees paid to Mr. Calvert in 2011, the Association also paid Calvert Consulting seven hundred and fifty dollars for performing prospective employee profile analyses. Mr. Calvert is a member of the Society of Financial Examiners and has been in the banking industry for over 40 years. He is a former commercial bank President, CEO, and Director. Mr. Calvert is designated as the Association's financial expert.

James R. Dean is an outside director and has over twenty (20) years experience in the field of Economic and Community Development. He is currently the City Manager of Marianna, Florida. He has served in that position since March of 2008. From July 2006 until March 2008 he was a District Director with the USDA, Rural Development. He is a former employee of Farm Credit of Northwest Florida.

James G. Ditty owns a farm in Jackson County. He presently rents the farm to others, which has been his principal occupation during the last five years. Mr. Ditty serves on the AgFirst Farm Credit District Advisory Committee (DAC).

Cindy S. Eade has been in dairy production for the past five years. She is the co-owner and manager of Cindale Farms LLC. She serves on the Board of Directors of the Jackson County Chamber of Commerce (business and community development). She is a resident of Jackson County, Florida. Ms. Eade serves as the chairwoman of the audit committee and the compliance committee. She also represents the board on the Association's Risk Management Committee (RIMCO).

D. Mark Fletcher, CPA, is an outside director. Mr. Fletcher has been associated with Lanigan and Associates, P.C. of Tallahassee, Florida for the past seventeen years. He is presently a partner in that firm.

Copeland Griswold owns and operates a row crop and timber farm in Santa Rosa County, Florida, is part owner of a peanut buying point in Santa Rosa County, Florida and has been a farmer for the past five years.

William Carroll Lamb was an outside director and is a past Executive Vice President of Florida Forestry Association, Florida Agricultural Council and the Florida Society of Association Executives. He has served on the boards of Florida Future Farmers of America Foundation, Florida 4-H Foundation and the Southern Scholarship Foundation. He has been retired for the past five years. Mr. Lamb's term of office expired in 2011.

James P. Marshall has been the owner and operator of a row crop and timber farm in Okaloosa County, Florida for the last five years.

James C. Moulton is involved in the management of timber holdings, he is also involved in building, leasing and management of retail shopping centers and professional buildings in Northwest Florida. This has been his principal occupation for the last five years. He is President of Moulton Properties. Mr. Moulton serves on the advisory board of BBVA Compass Bank in Pensacola. Mr. Moulton resigned from the Association's Board of Directors in January 2012.

George T. Van Pelt's primary occupation for the past five years has been dairy farming. He is co-owner and operator of a dairy farm in Escambia County. Small grains are also grown for feed. He serves as 4-H Camp Trustee, Board member of Pensacola Interstate Fair and a Church Finance Committee Member. Mr. Van Pelt is the immediate past chairman of the compensation committee. Mr. Van Pelt's term of office expired in 2011.

T. B. Walker has been a dairy, cattle and row crop farmer for the past five years and a partner with Waukeenah Feed and Fertilizer Supply (retail). He is the managing director of Hickory Head Dairy (a dairy). Mr. Walker previously served as a director of the Farmers and Merchants Bank (a commercial bank) headquartered in Monticello, Fl.

Subject to approval by the board, the Association currently may allow directors $500 honoraria for attendance at meetings or special assignments with the exceptions of the chairman, who is allowed $600 honoraria for board meetings and the appointed director, Robert A. Calvert, Jr., who is paid a monthly retainer of $1,500 as the designated financial expert. Total compensation paid to directors as a group was $112,700 for 2011. No director received more than $5,000 in non-cash compensation during the year.

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

	Regular Board Meeting	
DIRECTOR	**Days Served**	**Compensation**
Richard Terry, ***Chairman***	12	7,100
Melvin Adams, ***Vice-Chairman***	11	5,500
Fred H. Beshears	11	5,500
Bob Calvert, *Appointed Director*	11	18,000
James R. Dean, *Outside Director*	4	2,000
James G. Ditty	12	6,100
Cindy Eade	12	6,000
D. Mark Fletcher, *Outside Director*	4	2,000
Copeland Griswold	8	4,000
William Carroll Lamb, *Outside Director*	8	4,000
James P. Marshall	2	1,000
James C. Moulton	12	6,000
George T. Van Pelt	9	4,500
T.B. Walker	11	5,500
Total		$ 77,200

	Other Official Activities	
DIRECTOR	**Days Served**	**Compensation**
Richard Terry, ***Chairman***	9	$ 3,500
Melvin Adams, ***Vice-Chairman***	3	1,000
Fred H. Beshears	6	2,500
Bob Calvert, *Appointed Director*	9	2,750
James R. Dean, *Outside Director*	4	1,750
James G. Ditty	9	3,750
Cindy Eade	24	9,250
D. Mark Fletcher, *Outside Director*	2	500
Copeland Griswold	8	3,750
William Carroll Lamb, *Outside Director*	3	1,500
James C. Moulton	9	4,250
George T. VanPelt	1	250
T.B. Walker	2	750
Total		$ 35,500

Name of Director	Committee Assignments
Richard Terry, ***Chairman***	Compensation, Compliance, Steering and Executive
Melvin Adams, ***Vice-Chairman***	Compensation
Fred H. Beshears	Compliance, Executive, Loan, Steering
Bob Calvert, *Appointed Director*	Audit, Compliance
James R. Dean, *Outside Director*	Compensation
James G. Ditty	Compliance, Loan, Steering
Cindy Eade	Audit, Compliance, Executive and board representative on RIMCO
D. Mark Fletcher, *Outside Director*	Audit, Compliance
Copeland Griswold	Loan, Steering
William Carroll Lamb, *Outside Director*	Compensation
James P. Marshall	Loan
James C. Moulton	Audit, Compliance
George T. VanPelt	Compensation
T.B. Walker	Compensation

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the expense policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $33,214 for 2011, $41,153 for 2010, and $42,813 for 2009.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and elected directors, to be disclosed in this section are incorporated herein by reference to Note 11 of the Consolidated Financial Statements, "Related Party Transactions," included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations except as disclosed in Note 11.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Certified Public Accountant

There were no changes in or material disagreements with our independent certified public accountant on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees incurred by the Association for services rendered by its independent certified public accountant for the year ended December 31, 2011 were as follows:

(dollars in thousands)	2011
Independent Certified Public Accountant	
PricewaterhouseCoopers LLP	
Audit services	$ 59
Total	$ 59

Audit fees were for the annual audit of the consolidated financial statements.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 13, 2012 and the report of management, which appear in this Annual Report are incorporated herein by reference.

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-850-526-4910 or writing Chief Financial Officer, Farm Credit of Northwest Florida, P.O. Box 7000, Marianna, Florida 32447, or accessing the web site, ***www.farmcredit-fl.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this annual report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of Northwest Florida (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent certified public accountant for 2011, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 *(Independence Discussions with Audit Committees)*, and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2011. The foregoing report is provided by the following independent directors, who constitute the Committee:

Cindy S. Eade
Chairman of the Audit Committee

Members of Audit Committee

Robert A. Calvert, Jr.
Mark Fletcher, CPA

March 13, 2012

Report of Independent Certified Public Accountants

Report of Independent Certified Public Accountants

To the Board of Directors and Members
of Farm Credit of Northwest Florida, ACA

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Farm Credit of Northwest Florida, ACA (the Association) and its subsidiaries at December 31, 2011, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 13, 2012

PricewaterhouseCoopers LLP, 401 E. Las Olas Boulevard, Suite 1800, Fort Lauderdale, FL 33301
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Consolidated Balance Sheets

		December 31,	
(dollars in thousands)	**2011**	**2010**	**2009**
Assets			
Cash	$ 284	$ —	$ —
Loans	328,868	385,839	441,596
Less: allowance for loan losses	6,578	10,098	8,724
Net loans	322,290	375,741	432,872
Accrued interest receivable	2,534	2,612	3,315
Investments in other Farm Credit institutions	7,221	8,418	9,506
Premises and equipment, net	1,256	1,322	1,430
Other property owned	12,349	16,930	15,464
Due from AgFirst Farm Credit Bank	3,253	3,788	4,337
Other assets	1,966	2,378	2,504
Total assets	$ 351,153	$ 411,189	$ 469,428
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 275,586	$ 336,920	$ 393,791
Accrued interest payable	660	935	1,248
Patronage refund payable	31	31	31
Other liabilities	2,879	2,898	3,440
Total liabilities	279,156	340,784	398,510
Commitments and contingencies			
Members' Equity			
Protected borrower stock	5	7	14
Capital stock and participation certificates	941	1,014	1,138
Retained earnings			
Allocated	51,831	51,936	52,016
Unallocated	19,220	17,448	17,750
Total members' equity	71,997	70,405	70,918
Total liabilities and members' equity	$ 351,153	$ 411,189	$ 469,428

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

Consolidated Statements of Operations

(dollars in thousands)	For the year ended December 31, 2011	2010	2009
Interest Income			
Loans	$ 17,823	$ 21,175	$ 26,559
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	9,214	12,669	16,849
Other	—	1	13
Total interest expense	9,214	12,670	16,862
Net interest income	8,609	8,505	9,697
Provision for loan losses	110	6,109	11,296
Net interest income after provision for loan losses	8,499	2,396	(1,599)
Noninterest Income			
Loan fees	232	319	189
Patronage refund from other Farm Credit institutions	3,498	4,141	4,411
Gains (losses) on other property owned, net	(4,178)	(2,592)	(986)
Gains (losses) on sales of premises and equipment, net	6	—	—
Insurance Fund refunds	—	492	—
Other noninterest income	12	31	50
Total noninterest income (loss)	(430)	2,391	3,664
Noninterest Expense			
Salaries and employee benefits	4,287	3,866	3,607
Occupancy and equipment	308	329	315
Insurance Fund premiums	232	221	847
Other operating expenses	1,378	1,129	1,112
Total noninterest expense	6,205	5,545	5,881
Income (loss) before income taxes	1,864	(758)	(3,816)
Provision (benefit) for income taxes	92	(456)	—
Net income (loss)	$ 1,772	$ (302)	$ (3,816)

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2008	$ 16	$ 1,231	$ 52,055	$ 21,571	$ 74,873
Net income (loss)				(3,816)	(3,816)
Protected borrower stock retired	(2)				(2)
Capital stock/participation certificates issued/(retired), net		(93)			(93)
Retained earnings retired			(42)		(42)
Patronage distribution adjustment			3	(5)	(2)
Balance at December 31, 2009	14	1,138	52,016	17,750	70,918
Net income (loss)				(302)	(302)
Protected borrower stock retired	(7)				(7)
Capital stock/participation certificates issued/(retired), net		(124)			(124)
Retained earnings retired			(80)		(80)
Balance at December 31, 2010	7	1,014	51,936	17,448	70,405
Net income				1,772	1,772
Protected borrower stock retired	(2)				(2)
Capital stock/participation certificates issued/(retired), net		(73)			(73)
Retained earnings retired			(105)		(105)
Balance at December 31, 2011	$ 5	$ 941	$ 51,831	$ 19,220	$ 71,997

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2011	2010	2009
Cash flows from operating activities:			
Net income (loss)	$ 1,772	$ (302)	$ (3,816)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	121	143	162
Amortization (accretion) of net deferred loan origination costs (fees)	(313)	(96)	(270)
Provision for loan losses	110	6,109	11,296
(Gains) losses on other property owned, net	4,178	2,592	986
(Gains) losses on sales of premises and equipment, net	(6)	—	—
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	78	703	1,244
(Increase) decrease in due from AgFirst Farm Credit Bank	535	549	(94)
(Increase) decrease in other assets	412	126	(131)
Increase (decrease) in accrued interest payable	(275)	(313)	(390)
Increase (decrease) in other liabilities	(19)	(542)	(143)
Total adjustments	4,821	9,271	12,660
Net cash provided by (used in) operating activities	6,593	8,969	8,844
Cash flows from investing activities:			
Net (increase) decrease in loans	49,989	41,961	31,855
(Increase) decrease in investment in other Farm Credit institutions	1,197	1,088	751
Purchases of premises and equipment	(55)	(35)	(28)
Proceeds from sales of premises and equipment	6	—	—
Proceeds from sales of other property owned	4,068	5,099	379
Net cash provided by (used in) investing activities	55,205	48,113	32,957
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(61,334)	(56,871)	(41,437)
Protected borrower stock retired	(2)	(7)	(2)
Capital stock and participation certificates issued/(retired), net	(73)	(124)	(93)
Patronage refunds and dividends paid	—	—	(764)
Retained earnings retired	(105)	(80)	(42)
Net cash provided by (used in) financing activities	(61,514)	(57,082)	(42,338)
Net increase (decrease) in cash	284	—	(537)
Cash, beginning of period	—	—	537
Cash, end of period	$ 284	$ —	$ —
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	$ 7,175	$ 2,250	$ —
Receipt of property in settlement of loans	10,840	11,407	15,474
Supplemental information:			
Interest paid	$ 9,489	$ 12,983	$ 17,252
Taxes (refunded) paid, net	—	(456)	26

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of Northwest Florida, ACA (the Association or ACA) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified purposes in the counties of Bay, Calhoun, Escambia, Franklin, Gadsden, Gulf, Holmes, Jackson, Jefferson, Leon, Liberty, Madison, Okaloosa, Santa Rosa, Taylor, Wakulla, Walton, and Washington in the state of Florida.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2011, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and eighty-four associations.

AgFirst Farm Credit Bank (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to associations within the District and is responsible for supervising certain activities of the Association, as well as the other associations operating within the District. The District consists of the Bank and twenty Agricultural Credit Associations (ACAs), all of which are structured as ACA parent-companies, which have two wholly owned subsidiaries, a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA). FLCAs are tax-exempt while ACAs and PCAs are taxable.

ACA parent-companies provide financing and related services through its FLCA and PCA subsidiaries. The FLCA makes collateralized long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes; however the Association is operating its short-term and intermediate-term business through the ACA instead of the PCA.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on net income or total members' equity of prior years. The Consolidated Financial Statements include the accounts of the FLCA and the PCA. All significant

inter-company transactions have been eliminated in consolidation.

A. **Cash:** Cash, as included in the statements of cash flows, represents cash on hand and on deposit at banks.

B. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have original maturities ranging from 5 to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

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

The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses existing as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Association uses a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including current production and economic conditions, loan portfolio composition, collateral value, portfolio quality, and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The Association considers the following factors when adjusting the historical charge-offs experience:

- Changes in credit risk classifications,
- Changes in collateral values,
- Changes in risk concentrations,
- Changes in weather related conditions, and
- Changes in economic conditions.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans, and could include loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB)

guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance for loan losses reversals and loan charge-offs.

C. **Investment in Other Farm Credit Institutions:** Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class C stock. Accounting for this investment is on the cost plus allocated equities basis.

D. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in gains (losses) on other property owned, net.

E. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

F. **Advanced Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

G. **Employee Benefit Plans:** Substantially all employees of the Association may participate in either the AgFirst Farm Credit Final Average Pay Retirement Plan or the AgFirst Farm Credit Cash Balance Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer plans. These two Plans are noncontributory and include eligible District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of these Plans are allocated to each participating entity, including the Association, by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plans' participants.

Substantially all employees of the Association may also be eligible to participate in defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $.50 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. 401(k) plan costs are expensed as funded.

The Association may provide certain health care and life insurance benefits to eligible retired employees. Substantially all employees may become eligible for these benefits if they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits.

H. **Income Taxes:** The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

I. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

J. **Fair Value Measurement:** FASB guidance defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It describes three levels of inputs that may be used to measure fair value as discussed in Note 13.

K. **Recently Issued Accounting Pronouncements:** In December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, "Balance Sheet (Topic 220) - Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will result in additional disclosures.

In September 2011, the FASB issued ASU 2011-09, "Compensation (Topic 715): Retirement Benefits – Multiemployer Plans." The amendment is intended to provide for more information about an employer's financial obligations to multiemployer pension and other postretirement benefit plans, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include the following: (1) a description of the nature of plan benefits; (2) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and (3) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented. The adoption did not impact the Association's financial condition or results of operation but did result in additional disclosures (see Note 10).

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This amendment is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). This guidance is to be applied retrospectively. For public entities, it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact the Association's financial condition or results of operations, but will result in changes to the presentation of comprehensive income. In December 2011, the FASB issued guidance (ASU 2011-12; Topic 220) to defer the new requirement to present components of accumulated other comprehensive income reclassified as components of net income on the face of the financial statements. All other requirements in the guidance for comprehensive income are required to be adopted as set forth in the June 2011 guidance. The deferral is effective at the same time the new standard on comprehensive income is adopted.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the

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

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

In January 2011, the FASB issued ASU 2011-01, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This amendment temporarily delayed the effective date of the disclosures about TDRs required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about TDRs coincides with the guidance for determining what constitutes a TDR as described above. The adoption of this guidance had no material impact on the Association's financial condition and results of operations but resulted in significant additional disclosures (see Note 3).

In July 2010, the FASB issued ASU 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This amendment provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period were effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in significant additional disclosures (see Note 3).

Effective January 1, 2010, the Association adopted ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820)" which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 13).

Note 3 — Loans and Allowance for Loan Losses

A summary of loans follows:

(dollars in thousands)	December 31, 2011	2010	2009
Real estate mortgage	$ 196,777	$ 245,787	$ 277,260
Production and intermediate-term	125,166	133,649	148,638
Agribusiness			
Processing and marketing	2,005	684	772
Farm-related business	132	150	259
Total agribusiness	2,137	834	1,031
Rural residential real estate	4,788	5,569	7,460
Other (including mission-related)	–	–	7,207
Total Loans	$ 328,868	$ 385,839	$ 441,596

A substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

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

	December 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 49,817	$ –	$ 4,497	$ 267	$ –	$ 267	$ 54,314
Production and intermediate-term	–	20,593	–	–	3,433	2,428	3,433	23,021
Agribusiness								
Processing and marketing	1,388	–	–	–	–	–	1,388	–
Total	$ 1,388	$ 70,410	$ –	$ 4,497	$ 3,700	$ 2,428	$ 5,088	$ 77,335

	December 31, 2010							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 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 December 31, 2011 and indicates that approximately 32.14 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	$ 28,972	$ 74,720	$ 93,085	$ 196,777
Production and intermediate-term	74,820	44,588	5,758	125,166
Agribusiness				
Processing and marketing	1,378	627	–	2,005
Farm-related business	1	–	131	132
Total agribusiness	1,379	627	131	2,137
Rural residential real estate	541	2,114	2,133	4,788
Total Loans	$ 105,712	$ 122,049	$ 101,107	$ 328,868

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31, 2011, 2010, and 2009:

	2011	2010	2009
Real estate mortgage:			
Acceptable	82.89%	79.64%	84.47%
OAEM	8.05	5.01	6.82
Substandard/doubtful/loss	9.06	15.35	8.71
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	54.38%	62.11%	58.51%
OAEM	18.33	13.96	25.24
Substandard/doubtful/loss	27.29	23.93	16.25
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	95.94%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	4.06
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	99.24%	99.33%	99.61%
OAEM	–	–	–
Substandard/doubtful/loss	0.76	0.67	0.39
	100.00%	100.00%	100.00%

	2011	2010	2009
Total agribusiness:			
Acceptable	100.00%	100.00%	96.86%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	3.14
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	74.20%	78.89%	82.68%
OAEM	2.73	2.68	4.43
Substandard/doubtful/loss	23.07	18.43	12.89
	100.00%	100.00%	100.00%
Other (including mission-related)			
Acceptable	–%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	–%	100.00%	100.00%
Total Loans:			
Acceptable	72.04%	73.59%	76.04%
OAEM	11.83	8.07	12.83
Substandard/doubtful/loss	16.13	18.34	11.13
	100.00%	100.00%	100.00%

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

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	$ 7,068	$ 6,025	$ 13,093	$ 185,475	$ 198,568	$ –
Production and intermediate-term	3,248	21,986	25,234	100,660	125,894	–
Agribusiness						
Processing and marketing	–	(10)	(10)	2,019	2,009	–
Farm-related business	–	1	1	130	131	–
Total agribusiness	–	(9)	(9)	2,149	2,140	–
Rural residential real estate	201	285	486	4,314	4,800	–
Total	$ 10,517	$ 28,287	$ 38,804	$ 292,598	$ 331,402	$ –

December 31, 2010						
(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	$ 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 are as follows:

(dollars in thousands)	December 31, 2011	2010	2009
Nonaccrual loans:			
Real estate mortgage	$ 6,075	$ 26,624	$ 21,277
Production and intermediate-term	26,556	22,135	12,230
Agribusiness			
Processing and marketing	(10)	(10)	31
Farm-related business	1	1	1
Total agribusiness	(9)	(9)	32
Rural residential real estate	320	711	964
Total nonaccrual loans	$ 32,942	$ 49,461	$ 34,503
Accruing restructured loans:			
Rural residential real estate	490	–	–
Total accruing restructured loans	$ 490	$ –	$ –
Accruing loans 90 days or more past due:			
Real estate mortgage	$ –	$ –	$ 1,188
Total accruing loans 90 days or more past due	$ –	$ –	$ 1,188
Total nonperforming loans	$ 33,432	$ 49,461	$ 35,691
Other property owned	12,349	16,930	15,464
Total nonperforming assets	$ 45,781	$ 66,391	$ 51,155
Nonaccrual loans as a percentage of total loans	10.02%	12.82%	7.81%
Nonperforming assets as a percentage of total loans and other property owned	13.42%	16.48%	11.19%
Nonperforming assets as a percentage of capital	63.59%	94.30%	72.13%

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

(dollars in thousands)	December 31, 2011	2010	2009
Impaired nonaccrual loans:			
Current as to principal and interest	$ 4,597	$ 11,054	$ 6,254
Past due	28,345	38,407	28,249
Total impaired nonaccrual loans	32,942	49,461	34,503
Impaired accrual loans:			
Restructured	490	–	–
90 days or more past due	–	–	1,188
Total impaired accrual loans	490	–	1,188
Total impaired loans	$ 33,432	$ 49,461	$ 35,691

Additional impaired loan information is as follows:

	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	$ 2,737	$ 2,800	$ 317	$ 4,171	$ 40
Production and intermediate-term	17,703	19,977	3,456	26,978	259
Rural residential real estate	285	536	20	434	4
Total	$ 20,725	$ 23,313	$ 3,793	$ 31,583	$ 303
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,338	$ 5,621	$ –	$ 5,086	$ 49
Production and intermediate-term	8,853	9,238	–	13,490	129
Agribusiness					
Processing and marketing	(10)	1,228	–	(15)	–
Farm-related business	1	1,536	–	1	–
Total agribusiness	(9)	2,764	–	(14)	–
Rural residential real estate	525	740	–	800	8
Total	$ 12,707	$ 18,363	$ –	$ 19,362	$ 186
Total impaired loans:					
Real estate mortgage	$ 6,075	$ 8,421	$ 317	$ 9,257	$ 89
Production and intermediate-term	26,556	29,215	3,456	40,468	388
Agribusiness					
Processing and marketing	(10)	1,228	–	(15)	–
Farm-related business	1	1,536	–	1	–
Total agribusiness	(9)	2,764	–	(14)	–
Rural residential real estate	810	1,276	20	1,234	12
Total	$ 33,432	$ 41,676	$ 3,793	$ 50,945	$ 489

(dollars in thousands)	December 31, 2010 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2010 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
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)	–
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 December 31, 2011.

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

(dollars in thousands)	Year Ended December 31, 2011	2010	2009
Interest income which would have been recognized under the original loan terms	$ 2,430	$ 2,519	$ 1,658
Less: interest income recognized	385	184	125
Foregone interest income	$ 2,045	$ 2,335	$ 1,533

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

December 31, 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	(1,470)	(2,499)	(86)	(306)	(4,361)
Recoveries	659	25	–	47	731
Provision for loan losses	(2,294)	2,563	95	(254)	110
Other	(311)	311	–	–	–
Balance at December 31, 2011	$ 2,072	$ 4,426	$ 19	$ 61	$ 6,578
December 31, 2011 allowance ending balance:					
Loans individually evaluated for impairment	$ 317	$ 3,456	$ –	$ 20	$ 3,793
Loans collectively evaluated for impairment	$ 1,755	$ 970	$ 19	$ 41	$ 2,785
Recorded investment in loans outstanding:					
Ending Balance at December 31, 2011	$ 198,568	$ 125,894	$ 2,140	$ 4,800	$ 331,402
December 31, 2011 recorded investment ending balance:					
Loans individually evaluated for impairment	$ 6,075	$ 26,556	$ (9)	$ 320	$ 32,942
Loans collectively evaluated for impairment	$ 192,493	$ 99,338	$ 2,149	$ 4,480	$ 298,460

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

To mitigate risk of loan losses, the Association has entered into Long-Term Standby Commitments to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under Long-Term Standby Commitments to Purchase held by the Association was $393, $800, and $951 at December 31, 2011, 2010, and 2009, respectively. Fees paid to Farmer Mac for such commitments totaled $5, $6, and $7 for 2011, 2010, and 2009, respectively. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following table presents additional information regarding troubled debt restructurings as of the restructuring date that occurred during the year ended December 31, 2011. The table does not include purchased credit impaired loans.

	Pre-modification Outstanding Recorded Investment			
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Rural residential real estate	$ –	$ 495	$ –	$ 495
Total	$ –	$ 495	$ –	$ 495

	Post-modification Outstanding Recorded Investment				Effects of Modification	
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Rural residential real estate	$ –	$ 495	$ –	$ 495	$ (340)	$ –
Total	$ –	$ 495	$ –	$ 495	$ (340)	$ –

Interest concessions include interest forgiveness and interest deferment. Principal concessions include principal forgiveness, principal deferment, and maturity extension. Other concessions include additional compensation received which might be in the form of cash or other assets.

There were no troubled debt restructurings that occurred during the year ended December 31, 2011 and for which there was a subsequent payment default during this same period. Payment default is defined as a payment that was thirty days or more past due.

TDRs outstanding at December 31, 2011 totaled $6,185, of which $5,695 were in nonaccrual status.

Note 4 — Investment in Other Farm Credit Institutions

Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class C stock. Accounting for this investment is on the cost plus allocated equities basis. The Association's investment in the Bank totaled $6,797 for 2011, $8,000 for 2010 and $9,092 for 2009.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2011	2010	2009
Land	$ 186	$ 186	$ 186
Buildings and improvements	1,978	1,978	1,979
Furniture and equipment	1,153	1,123	1,087
	3,317	3,287	3,252
Less: accumulated depreciation	2,061	1,965	1,822
Total	$ 1,256	$ 1,322	$ 1,430

Note 6 — Other Property Owned

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

	December 31, 2011	2010	2009
Gains (losses) on sale, net	$ (1,487)	$ (864)	$ (143)
Carrying value unrealized gains (losses)	(2,253)	(1,310)	(809)
Operating income (expense), net	(438)	(418)	(34)
Gains (losses) on other property owned, net	$ (4,178)	$ (2,592)	$ (986)

OPO consisted of nineteen (19), twenty-seven (27), and fifteen (15) properties with book values of $12,349, $16,930 and $15,464 at Dec 31, 2011, 2010 and 2009, respectively. At December 31, 2011, OPO consists of eleven (11) properties with a book value of $7,013 that were added to the portfolio before 2011. During 2011, twenty-five (25) properties (including parcels) were sold, representing a BV of $13,167, for a net loss of $1,487.

Note 7 — Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings, and capital covenants. The Association failed to meet its earnings covenant under the GFA at December 31, 2011. The default allows the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank has approved a waiver of the default through December 31, 2012 and has allowed the Association to operate under a special credit arrangement pursuant to its GFA.

Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association. The weighted average interest rates on the variable rate notes were 1.57 percent for LIBOR-based loans, 1.69 percent for Prime-based loans, and the weighted average remaining maturities were 3.2 years and 11.5 years, respectively, at December 31, 2011. The weighted average interest rate on the

fixed rate and adjustable rate mortgage (ARM) notes payable which are match funded by the Bank was 2.89 percent and the weighted average remaining maturity was 4.7 years at December 31, 2011. The weighted average interest rate on all interest-bearing notes payable was 2.66 percent and the weighted average remaining maturity was 5.5 years at December 31, 2011.

Variable rate and fixed rate notes payable represent approximately (1.75) percent and 101.75 percent, respectively, of total notes payable at December 31, 2011. The variable rate percentage was negative due to variable rate credits that exceeded variable rate borrowings. Even though loans to borrowers are match funded by the notes payable to the Bank, they are not funded dollar for dollar. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds " and is recorded on the Association's general ledger as a debit, offsetting the notes payable to the Bank. At December 31, 2011, this resulted in a net variable rate notes payable debit and caused the (1.75) percent.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition.

Note 8 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. **Protected Borrower Stock**

Protection of certain borrower stock is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower stock, to retire such stock at par or stated value regardless of its book value. Protected borrower stock includes capital stock and participation certificates, which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund

B. **Capital Stock and Participation Certificates**

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to $1. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

C. **Regulatory Capitalization Requirements and Restrictions**

The FCA's capital adequacy regulations require the Association to achieve permanent capital of 7.00 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the 7.00 percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. 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's permanent capital, total surplus and core surplus ratios at December 31, 2011 were 17.80 percent, 17.53 percent and 16.79 percent, respectively.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

D. **Description of Equities**

The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B, and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

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

		Shares Outstanding	
Class	**Protected**	**Number**	**Aggregate Par Value**
B Common/Nonvoting	Yes	990	$ 5
C Common/Voting	No	173,484	867
C Participation Certificates/Nonvoting	Yes	17	–
C Participation Certificates/Nonvoting	No	14,766	74
Total Capital Stock and Participation Certificates		189,257	$ 946

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met. At December 31, 2011, allocated members' equity consisted of $9,811 of qualified surplus, $11,580 of nonqualified allocated surplus and $30,440 of nonqualified retained surplus.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A or D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividend paid on Classes A, B, or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B, or C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

The Association's supervisory agreement with the FCA directs that the Association's board of directors will not authorize, and management will not make, patronage or dividend distributions from past, current, or future earnings without the prior written consent of the FCA's Director of the Risk Supervision Division.

Transfer

Classes A and D Preferred, Classes A, B, and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Class C Common Stock and Class C Participation Certificates
2. Classes A and B Common Stock and Class B Participation Certificates
3. Classes A and D Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Classes A and D Preferred Stock

2. Classes A, B and C Common Stock, and Classes B and C Participation Certificates
3. Holders of allocated surplus evidenced by qualified written notices of allocation
4. Holders of allocated surplus evidenced by nonqualified written notices of allocation
5. All unallocated surplus issued after January 1, 1995, shall be distributed to past and present Patrons on a patronage basis
6. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates

Note 9 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31, 2011	2010	2009
Current:			
Federal	$ 85	$ (456)	$ –
State	7	–	–
	92	(456)	–
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ 92	$ (456)	$ –

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31, 2011	2010	2009
Federal tax at statutory rate	$ 633	$ (258)	$ (1,298)
State tax, net	7	–	–
Patronage distributions	–	–	–
Tax-exempt FLCA earnings	(941)	(405)	(737)
Change in valuation allowance	37	286	2,252
Other	356	(79)	(217)
Provision (benefit) for income taxes	$ 92	$ (456)	$ –

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

	December 31, 2011	2010	2009
Deferred income tax assets:			
Allowance for loan losses	$ 1,819	$ 1,650	$ 1,917
Net operating loss – carryforward	622	1,253	1,437
Loan origination fees	121	119	109
Nonaccrual loan interest	1,203	931	315
Valuation allowance on other property owned	520	295	184
Gross deferred tax assets	4,285	4,248	3,962
Less: valuation allowance	(4,285)	(4,248)	(3,962)
Gross deferred tax assets, net of valuation allowance	–	–	–
Deferred income tax liabilities:			
Gross deferred tax liability	–	–	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2011, deferred income taxes have not been provided by the Association on approximately $56 of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $4,285, $4,248 and $3,962 during 2011, 2010 and 2009, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2011 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2007 and forward.

Note 10 — Employee Benefit Plans

The Association participates in four District sponsored benefit plans. These plans include two multiemployer defined benefit pension plans, the AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP) and the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB). In addition, the Association participates in a multiemployer defined benefit other postretirement benefits plan (OPEB), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan and a defined contribution 401(k) plan. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

a) Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c) If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The Association's participation in the multiemployer defined benefit plans for the annual period ended December 31, 2011, 2010 and 2009 is outlined in the table below. The "Percentage Funded to Projected Benefit Obligation" or "Percentage Funded to Accumulated Postretirement Benefit Obligation" represents the funded amount for the entire plan and the "Contributions" and "Percentage of Total Contributions" columns represent the Association's respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
AgFirst Farm Credit Retirement Plan	74.82%	75.75%	71.65%	$454	$439	$529	1.14%	1.06%	1.13%
AgFirst Farm Credit Cash Balance Retirement Plan	81.77%	115.95%	145.01%	$26	$18	$30	3.11%	4.02%	3.41%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$124	$123	$116	2.09%	2.09%	2.02%

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number
2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the Association are eligible to participate in either the FAP Plan or the CB Plan. These two Plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution into the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants Plan expenses included in employee benefit costs were $648 for 2011, $612 for 2010, and $623 for 2009. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $120 for 2011, $101 for 2010, and $90 for 2009. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of other liabilities in the Association's Consolidated Balance Sheets.

The Association also participates in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $118, $103, and $91 for the years ended December 31, 2011, 2010, and 2009, respectively.

Additional financial information for the four District sponsored multi-employer plans may be found in the Notes to the

Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2011 Annual Report.

Note 11 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2011 amounted to $29,292. During 2011, $2,088 of new loans were made and repayments totaled $7,336. In the opinion of management, none of these loans outstanding at December 31, 2011 involved more than a normal risk of collectability, except as described below.

Mortgage loans with a gross credit risk exposure totaling $7,107 at December 31, 2011 to one director of the Association, James C. Moulton, were classified substandard due to more than a normal risk of collectability as determined by the Association. This classification of substandard was the result of declining debt repayment capacity related to weakness in the general real estate economy. Due to portfolio management policies and internal hold limits, the Association does not hold the entire loan balance and sells loan participations to AgFirst and other Farm Credit Institutions. The net credit risk exposure to the Association on these loans was $4,073 at December 31, 2011. These loans were not current as of December 31, 2011. However, Association management believes that the loans are adequately secured. The largest outstanding exposure on these loans during 2011 was $7,383 gross and $4,231 net and the balance outstanding at January 31, 2012 was $7,140 gross and $4,092 net. Mr. Moulton resigned from the Association's Board of Directors in January 2012.

Note 12 — Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements.

Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2011, $11,834 of commitments to extend credit and no commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

Actions are pending against the Association 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, for these actions, would not be material in relation to the overall financial position of the Association.

Note 13 — Fair Value Measurement

FASB guidance defines fair value, establishes a framework for measuring fair value and requires fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of 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 December 31, 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 December 31, 2011.

Level 3

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

Level 3 assets at December 31, 2011 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principle balance of the loan, a specific reserve is established. Other property owned is classified as a Level 3 asset at December 31, 2011. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned.

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

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2011, 2010, and 2009 for each of the fair value hierarchy values are summarized below.

	December 31, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired Loans	$ –	$ –	$ 16,801	$ 16,801	$ (1,605)
Other property owned	$ –	$ –	$ 13,220	$ 13,220	$ (3,740)

	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)

	December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired Loans	$ –	$ –	$ 14,962	$ 14,962	$ (7,871)
Other property owned	$ –	$ –	$ 15,532	$ 15,532	$ (952)

Note 14 — Disclosures About Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2011, 2010, and 2009.

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

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

	December 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	$ 284	$ 284	$ –	$ –
Loans, net of allowance	$ 322,290	$ 324,119	$ 375,741	$ 373,753
Accrued interest receivable	$ 2,534	$ 2,534	$ 2,612	$ 2,612
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 276,246	$ 279,103	$ 337,855	$ 339,666

	December 31, 2009	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ –	$ –
Loans, net of allowance	$ 432,872	$ 438,111
Accrued interest receivable	$ 3,315	$ 3,315
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 395,039	$ 399,705

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.

C. **Accrued Interest Receivable**: The carrying value of accrued interest approximates its fair value.

D. **Investment in Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. As described in Note 4, 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 1.93 percent of the issued stock of the Bank as of December 31, 2011 net of any reciprocal investment. As of that date, the Bank's assets totaled $29.6 billion and shareholders' equity totaled $2.1 billion. The Bank's earnings were $385 million during 2011.

   In addition, the Association has an investment of $424 related to other Farm Credit institutions.

E. **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.

F. **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 15 — Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2011, 2010, and 2009 follow:

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,181	$ 2,017	$ 2,175	$ 2,236	$ 8,609
Provision for (reversal of allowance for) loan losses	–	147	(95)	58	110
Noninterest income (expense), net	(882)	(1,582)	(2,042)	(2,221)	(6,727)
Net income (loss)	$ 1,299	$ 288	$ 228	$ (43)	$ 1,772

	2010				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,133	$ 2,011	$ 2,226	$ 2,135	$ 8,505
Provision for (reversal of allowance for) loan losses	378	4,760	2,168	(1,197)	6,109
Noninterest income (expense), net	(91)	(600)	(742)	(1,265)	(2,698)
Net income (loss)	$ 1,664	$ (3,349)	$ (684)	$ 2,067	$ (302)

	2009				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,659	$ 2,371	$ 2,585	$ 2,082	$ 9,697
Provision for (reversal of allowance for) loan losses	1,065	5,747	1,033	3,451	11,296
Noninterest income (expense), net	(317)	(419)	(506)	(975)	(2,217)
Net income (loss)	$ 1,277	$ (3,795)	$ 1,046	$ (2,344)	$ (3,816)

Note 16 – 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. The Association remained under written supervisory agreement as of the date of this report.

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 2011Annual Report.

Note 17 – Subsequent Events

The Bank has evaluated subsequent events and has determined there are none requiring disclosure through March 13, 2012, which is the date the financial statements were issued.