Farm Credit of Florida, ACA

SECOND QUARTER 2012

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CERTIFICATION

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

Don Rice
Chief Executive Officer

Laura Craker
Chief Financial Officer

Louis E. Larson, Jr.
Chairman of the Board

August 8, 2012

Farm Credit of Florida, ACA

Report on Internal Control Over Financial Reporting

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

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

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

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

Don Rice
Chief Executive Officer

Laura Craker
Chief Financial Officer

August 8, 2012

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Florida, ACA, (Association) for the period ended June 30, 2012. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2011 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

Effective January 1, 2011, Farm Credit of North Florida and Farm Credit of Southwest Florida merged into Farm Credit of South Florida. The merged associations operate under the name of Farm Credit of Florida. The primary reason for the merger was based on a determination that the combined organization would be financially and operationally stronger than either of the associations on a stand-alone basis. The merger was accounted for under the acquisition method of accounting. Additional information regarding the merger and the related impact to the Association's financial condition is contained in Note 6 of the Notes to the Consolidated Financial Statements.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including cattle, citrus, dairy, field crops, nurseries, sugar, timber, tropical fruits and vegetables. During the period of 2002 through 2007, the Association's territory witnessed a rapid appreciation of real estate values followed by a significant decline since the summer of 2007. The Florida real estate market continues to experience an oversupply of properties with few interested buyers which has led to lower values. Land prices in much of the territory have declined 30-75% and the Florida housing market continues to have one of the highest foreclosure rates in the country.

In addition, the recession of 2009-2010 and economic stagnation during 2011-2012 has had a significant negative impact to two of the Association's largest commodities, nursery and timber, due to less new home construction and reduced demand for foliage/landscape material. Currently, these growers continue to remain stressed and are having to adjust their operations to bring costs in line with lower sales and reductions in prices. The nursery sales year-to-date 2012 are only reflecting a small increase over 2011. The amount of product available is less and sizes are smaller due to the reduction in planting over the past few years, with shortages of some products reported. Many tree and palm growers have realized their trees will be too large when the industry recovers and have been destroying existing inventory and replanting younger material. Tree producers who have been able to maintain quality continue to report more sales of inventory, but pricing ability remains weak.

The 2011-12 citrus crop was smaller than last season but the higher prices received resulted in the majority of growers having a more profitable year. The 2012-13 crop remains in good condition. Current orange juice futures are in the $1.08-$1.10/lb. solid range; these prices remain profitable for most growers. Citrus canker and citrus greening continue to plague growers and continue to severely impact citrus acreage throughout the state. Fighting these diseases has materially increased the cost of production.

Cattle prices are currently in the mid $1.18/lb. range which is down due to the current drought resulting in more cattle being sent to market. Futures for January are $1.44/lb. Exports of beef currently exceed imports. Lower cattle numbers has increased demand for feeders and the increased demand for cheaper cuts of beef has resulted in higher prices for cull cows. This has also helped the dairy farmers with replacements. The 2012 2nd Quarter has experienced an increase in cow numbers and production per cow, which has led to a softening in demand and decrease in prices. Milk prices for 2011 averaged $24.49/cwt and are currently at $21+/cwt. Prices are expected to average $23/cwt for 2012. Feed costs are increasing and are expected to continue increasing due to the short corn and bean crop resulting from the drought. Presently, most dairies are at breakeven.

The 2011-12 sugarcane crop was impacted by winter freezes which resulted in lower yields. Prices were strong for the 2011-12 crop. Crop quality was good and the current market price was in the $.35 range for the 2012-13 crop. The 2012-13 crop condition is good. Domestic futures prices for sugar remain at historically high levels of $.29/lb. and this segment of the portfolio should perform extremely well. The possibility exists that a loss in volume could occur as sugar farmers, with excess cash, simply prepay debt to utilize cash.

The vegetable season in the southern territory concluded in the late spring. Most vegetable growers had a breakeven year.

Due to the continued low new housing demand, saw timber, chip n saw and pulpwood remain about the same price as last year. The general economic recession and resulting low new housing starts continue to hurt sawmills and timber growers resulting in tight cash flows.

During the last week of June 2012, Tropical Storm Debbie left a legacy of flooding over the central and northern parts of Florida. Highest rainfall totals were in excess of 15 inches and covered a wide patch of central Florida. Many areas of northern Florida received up to 10 inches of rain. Reports from borrowers have indicated that they did not experience a significant amount of damage.

The gross loan volume of the Association as of June 30, 2012, was $889,159, a decrease of $95,199 as compared to $984,358 at December 31, 2011. Net loans outstanding at June 30, 2012, were $878,883 as compared to $971,692 at December 31, 2011, a decrease of $92,809 or 9.55 percent. Net loans accounted for 90.18 percent of total assets at June 30, 2012, as compared to 89.54 percent of total assets at December 31, 2011. The decrease in both gross and net loan volume during the period is attributed to scheduled repayments in the loan portfolio and a reduced demand for credit in the market.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to decline but remains at an acceptable level and credit administration is satisfactory. During the six months, nonaccrual loans increased to $113,649 from the $112,148 balance at December 31, 2011. This increase is a result of continued declines in real estate values and borrowers ability to repay debt. The balance of Other Property Owned at June 30, 2012 was $9,148 a decrease of $3,002 from the $12,150 balance at December 31, 2011. The Association was successful in selling eighteen properties during the period resulting in this decrease.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2012, was $10,276 compared to $12,666 at December 31, 2011. This decrease is the result a provision for loan loss of $13,909 recorded during the period and recoveries of $1,257 offset by $17,556 in charge-offs recorded on loans transferred to nonaccrual or other property owned. Management considers the current level of allowance adequate to cover additional possible losses. The ratio of the allowance for loan losses to gross loans at June 30, 2012 was 1.16 percent.

RESULTS OF OPERATIONS

As a result of the merger on January 1, 2011, $551.5 million in non-impaired loans were purchased at a combined discount of approximately $30.3 million. In accordance with accounting guidance, this discount is to be accreted into interest income over the remaining life of each individual loan. For loans that are paid off early, any remaining discount would be accreted into income at time of pay off. The discount amount accreted into interest income for the three and six months ended June 30, 2012, was $2,447 and $4,183.

For the three months ended June 30, 2012

The Association recorded net income for the three months ended June 30, 2012 of $1,744 as compared to net income of $4,465 for the same period in 2011. This $2,721 decrease is primarily attributed to reduction in net interest income resulting from reduced loan volume.

Net interest income before provision for loan losses was $8,082 for the three months ended June 30, 2012 as compared to $11,223 during the same period in 2011. The change in net interest income represents a 27.99 percent decrease when compared to the same period last year and is attributed to the decrease in loan volume during the past 12 months.

Noninterest income for the three months ended June 30, 2012, totaled $4,208 as compared to $4,155 for the same period of 2011, an increase of $53 or 1.28 percent. This increase is attributed primarily to a one-time Farm Credit Insurance Fund refund of $1,235 offset by decreases in equity earnings of other Farm Credit institutions of $479, loan fees of $479, and an increase in losses on other property owned of $203.

Noninterest expense for the three months ended June 30, 2012, increased $62 or 1.10 percent compared to the same period of 2011. The primary reasons for the increase in noninterest expense is attributed to $90 increase in other operating expenses and $18 increase in occupancy and equipment expense. These increases are offset by a $46 decrease in Farm Credit Insurance Fund premium during the period.

For the six months ended June 30, 2012

Net loss for the six months ended June 30, 2012, totaled $2,325 compared to net income of $11,998 for the same period in 2011, a decrease of $14,323 or 119.38 percent. The decrease is primarily attributed to additions to provisions for loan losses during the period and a reduction in net interest income resulting from reduced loan volume. The increase of $8,625 in provisions are primarily due to charge-offs on non-performing loans due to continued decline in collateral values and specific reserves needed to cover potential future losses.

Net interest income decreased $4,507 for the six months ended June 30, 2012, as compared to the same period in 2011. This decrease is attributed to the decreased loan volume over the last 12 months and reduction in the amount of discounts accreted into income related to loan payoffs during prior year periods.

Noninterest income for the six months ended June 30, 2012, totaled $6,537 as compared to $7,709 for the same period of 2011, a decrease of $1,172 or 15.20 percent. This decrease is attributed to a significant increase in losses on other property owned of $1,256 and decreases in equity earnings from AgFirst Farm Credit Bank of $904, loan fees of $505, and other noninterest income of $98. These decreases were offset by increases of $331 in financially related services income, and a $1,235 Farm Credit Insurance Fund refund as explained below.

Noninterest expense for the six months ended June 30, 2012, increased $19 compared to the same period of 2011. The primary reasons for the increase is attributed to additional staffing cost increases totaling $134 related to nonperforming loan disposition. Additional increases were realized in other operating expenses of $18 offset by decreases in occupancy and equipment expense of $39, and insurance fund premiums of $94.

In 2011, the Association recorded $1,235 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The amount is reflected in Noninterest Income on the Consolidated Statements of Income. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. These funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2012, was $751,540 as compared to $861,096 at December 31, 2011. The decrease during the period of $109,556 is primarily attributed to the reductions in loan volume during the period and fluctuations in the usage of borrower SmartCash accounts. SmartCash accounts, a voluntary additional conditional payment fund, which are offset against the related loan outstanding in the portfolio, can influence fluctuations in volume and notes payable with the Bank. SmartCash balances at June 30, 2012 were $3,594 as compared to $11,663 at December 31, 2011. Additional SmartCash funds, held in Other Liabilities against commitment balances totaled $4,127 as of June 30, 2012 as compared to $2,692 at year-end.

CAPITAL RESOURCES

Total members' equity at June 30, 2012, decreased to $202,606 from the December 31, 2011 total of $205,183. The decrease is primarily attributed to the net loss in earnings experienced during the period.

Total capital stock and participation certificates were $4,684 on June 30, 2012, compared to $4,927 on December 31, 2011. This decrease is attributed the retirement of protected stock and participation certificates on loans liquidated in the normal course of business and new loans being capitalized at new lower regulatory levels.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2012, the Association's total surplus ratio and core surplus ratio were 16.95 percent and 16.95 percent, respectively, and the permanent capital ratio was 17.76 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

On June 15, 2012 the Farm Credit Administration (FCA) entered into a written supervisory agreement with the Board of Directors of the Association. The written supervisory agreement requires the Association to take corrective actions and other actions with respect to certain areas of its operations, including board governance, director fiduciary duties and standards of conduct, board consultant functions, staffing and succession planning, asset quality, collateral risk, allowance for loan losses, internal audit, board policies, compliance with requirements of the Financial Assistance Agreement, and business planning and reporting. In addition, the Association is operating under Supervisory Conditions of Merger and must maintain compliance with all requirements and conditions.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, inadequate management succession and human capital planning, perceived weaknesses in board governance and reduced earnings.

The Association has taken action to correct the weaknesses in its board operations and policies, asset quality, internal audit and management reporting; however, all necessary improvements have not been realized as of August 8, 2012.

The Board will address the requirements of the agreement by conducting a staffing study and adopting a human capital and succession plan, establishing a collateral risk program, including a capital contingency plan into the annual business

plan and by establishing improved credit policy direction and guidance.

The Board will continue engaging an independent consultant to provide advice in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement. Both the Board and Senior Management are committed to continuing the administration of the Association in a sound manner, compliant with all FCA Regulations.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

Note: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request, free of charge, by calling (561)-965-9001, or writing Laura Craker, CFO, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421, or accessing the website, *www.farmcreditfl.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2012	December 31, 2011
	(unaudited)	(audited)
Assets		
Cash	$ 291	$ 439
Investment securities:		
Held to maturity (fair value of $33,028 and $35,621 respectively)	31,859	34,547
Loans	889,159	984,358
Less: allowance for loan losses	10,276	12,666
Net loans	878,883	971,692
Other investments	5,316	8,021
Accrued interest receivable	4,374	4,765
Investments in other Farm Credit institutions	23,385	23,465
Premises and equipment, net	8,031	8,254
Other property owned	9,148	12,150
Due from AgFirst Farm Credit Bank	3,723	10,609
Other assets	9,530	11,276
Total assets	$ 974,540	$ 1,085,218
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 751,540	$ 861,096
Accrued interest payable	1,534	1,809
Patronage refunds payable	299	1,258
Advanced conditional payments	4,094	2,692
Other liabilities	14,467	13,180
Total liabilities	771,934	880,035
Commitments and contingencies		
Members' Equity		
Protected borrower stock	2,564	2,601
Capital stock and participation certificates	2,120	2,326
Additional paid-in-capital	7,873	7,873
Retained earnings		
Allocated	97,197	97,197
Unallocated	93,013	95,338
Accumulated other comprehensive income (loss)	(161)	(152)
Total members' equity	202,606	205,183
Total liabilities and members' equity	$ 974,540	$ 1,085,218

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

Farm Credit of Florida, ACA

Consolidated Statements of Operations

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Interest Income				
Investment securities	$ 285	$ 327	$ 587	$ 665
Loans	12,373	16,440	24,887	31,284
Other investments	24	29	46	55
Total interest income	12,682	16,796	25,520	32,004
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	4,600	5,573	9,360	11,337
Net interest income	8,082	11,223	16,160	20,667
Provision for loan losses	4,855	5,284	13,909	5,284
Net interest income after provision for loan losses	3,227	5,939	2,251	15,383
Noninterest Income				
Loan fees	633	1,112	1,287	1,792
Fees for financially related services	327	325	848	517
Patronage refunds from other Farm Credit institutions	2,407	2,886	4,617	5,521
Gains (losses) on other property owned, net	(508)	(305)	(1,638)	(382)
Gains (losses) on sales of rural home loans, net	13	29	40	47
Gains (losses) on sales of premises and equipment, net	35	(2)	35	3
Insurance Fund refunds	1,235	–	1,235	–
Other noninterest income	66	110	113	211
Total noninterest income	4,208	4,155	6,537	7,709
Noninterest Expense				
Salaries and employee benefits	4,062	4,062	8,009	7,875
Occupancy and equipment	344	326	669	708
Insurance Fund premiums	118	164	242	336
Other operating expenses	1,167	1,077	2,193	2,175
Total noninterest expense	5,691	5,629	11,113	11,094
Net income (loss)	$ 1,744	$ 4,465	$ (2,325)	$ 11,998

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

Farm Credit of Florida, ACA

Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Net income (loss)	$ 1,744	$ 4,465	$ (2,325)	$ 11,998
Other comprehensive income net of tax				
Employee benefit plan adjustments	1	–	(9)	–
Other comprehensive income (loss)	1	–	(9)	–
Comprehensive income (loss)	$ 1,745	$ 4,465	$ (2,334)	$ 11,998

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

Farm Credit of Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Additional Paid In Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2010	$ 2,463	$ 635	$ –	$ 30,879	$ 85,057	$ –	$ 119,034
Comprehensive income					11,998		11,998
Protected borrower equity retired	(24)						(24)
Capital stock/participation certificates issued/(retired), net		11					11
Equity re-characterized due to to merger	267	1,936	7,922	66,464			76,589
Patronage distribution adjustment				(146)	147		1
Balance at June 30, 2011	$ 2,706	$ 2,582	$ 7,922	$ 97,197	$ 97,202	$ –	$ 207,609
Balance at December 31, 2011	$ 2,601	$ 2,326	$ 7,873	$ 97,197	$ 95,338	$ (152)	$ 205,183
Comprehensive income (loss)					(2,325)	(9)	(2,334)
Protected borrower equity retired	(37)						(37)
Capital stock/participation certificates issued/(retired), net		(206)					(206)
Balance at June 30, 2012	$ 2,564	$ 2,120	$ 7,873	$ 97,197	$ 93,013	$ (161)	$ 202,606

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

Notes to the Consolidated Financial Statements

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

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

The accompanying financial statements include the accounts of Farm Credit of Florida, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2011, are contained in the 2011 Annual Report to Shareholders. These unaudited second quarter 2012 consolidated financial statements should be read in conjunction with the 2011 Annual Report to Shareholders.

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

Intra-District Restructurings: Effective January 1, 2011, Farm Credit of North Florida and Farm Credit of Southwest Florida merged into Farm Credit of South Florida. The merged associations operate under the name of Farm Credit of Florida (FCFL). The primary reason for the merger was based on a determination that the combined organization would be financially and operationally stronger than either of the associations on a stand-alone basis. The merger was accounted for under the acquisition method of accounting.

The fair value of the assets acquired, including specific intangible assets and liabilities assumed, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. The excess value received, by the acquiring association from the acquired association, over the par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital.

Total fair value of assets acquired was $697,798, and liabilities assumed were $621,252 (see Note 6).

The assets acquired included gross loans at fair value of $601,225 with a contractual amount of $661,194. As of January 1, 2011, the gross contractual amount of loans not expected to be collected was $27,386.

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2012, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (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 was eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). This guidance is 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 did not impact the Association's financial condition or results of operations, but resulted in changes to the presentation of comprehensive income. In December 2011, the FASB issued guidance (ASU 2011-12; Topic 220) to defer the 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 were 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 did not impact the Association's financial condition or results of operations, but resulted in additional disclosures.

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

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

NOTE 2 — INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held-to-maturity at June 30, 2012 and December 31, 2011 follows:

	June 30, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 9,590	$ 1,361	$ (8)	$ 10,943	6.12%
Asset-backed securities	22,269	157	(341)	22,085	0.61
Total	$ 31,859	$ 1,518	$ (349)	$ 33,028	2.27%

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 9,660	$ 1,313	$ (23)	$ 10,950	6.12%
Asset-backed securities	24,887	156	(372)	24,671	0.82
	$ 34,547	$ 1,469	$ (395)	$ 35,621	2.30%

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

	June 30, 2012		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 26	$ 26	(9.26)%
After one year through five years	5,707	5,512	(0.50)
After five years through ten years	13,834	13,970	1.41
After ten years	12,292	13,520	4.55
Total	$ 31,859	$ 33,028	2.27 %

The ABSs are rated AAA and they are guaranteed by the full faith and credit of the United States government. ABSs are held for reducing interest rate risk and managing surplus short-term funds. These securities must meet the applicable Farm Credit Administration (FCA) regulatory guidelines, which require these securities to be high quality, senior class, and rated AAA at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through over collateralization and the priority of payments of senior classes over junior classes. The FCA considers an asset-backed security investment ineligible if it falls below the AAA credit rating criteria and requires System institutions to divest of such an investment unless approval is granted to continue to hold by the FCA. All of the Association's asset-backed securities at June 30, 2012 are considered eligible under FCA regulatory guidelines.

Mission related investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Investment program approved by the FCA.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified.

The following table shows the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at June 30, 2012 and December 31, 2011:

	June 30, 2012			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related investments	$ 116	$ (8)	$ –	$ –
Asset-backed securities	14	–	14,392	(341)
Total	$ 130	$ (8)	$ 14,392	$ (341)

	December 31, 2011			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related investments	$ 2,406	$ (23)	$ –	$ –
Asset-backed securities	147	–	16,059	(372)
Total	$ 2,553	$ (23)	$ 16,059	$ (372)

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes.

Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment as the unrealized losses resulted primarily from non-credit related factors. The Association has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements. The Association does not intend to sell these investments and it is not more likely than not that the Association would be required to sell these investments before recovering its costs. The majority of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at June 30, 2012.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans outstanding at period end were as follows:

	June 30, 2012			December 31, 2011		
	Acquired Loans	Originated Loans	Total	Acquired Loans	Originated Loans	Total
Real estate mortgage	$ 251,067	$ 345,704	$ 596,771	$ 290,553	$ 371,183	$ 661,736
Production and intermediate-term	74,519	168,101	242,620	91,419	165,883	257,302
Agribusiness						
Loans to cooperatives	72	687	759	555	3,557	4,112
Processing and marketing	4,060	25,448	29,508	10,388	22,513	32,901
Farm-related business	6,822	5,506	12,328	12,189	4,094	16,283
Total agribusiness	10,954	31,641	42,595	23,132	30,164	53,296
Communication	–	–	–	1,965	351	2,316
Energy	–	53	53	472	1,220	1,692
Rural residential real estate	6,541	579	7,120	7,307	709	8,016
Total Loans	$ 343,081	$ 546,078	$ 889,159	$ 414,848	$ 569,510	$ 984,358

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. Participations purchased and sold balances at period end were as follows:

	June 30, 2012							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 105	$ 99,145	$ 1,796	$ 7,628	$ 7,314	$ 2,572	$ 9,215	$ 109,345
Production and intermediate-term	101,866	121,171	4,998	5,074	74,415	–	181,279	126,245
Agribusiness								
Loans to cooperatives	219	–	542	–	–	–	761	–
Processing and marketing	9,316	1,112	4,184	–	–	–	13,500	1,112
Farm-related business	749	–	1,237	–	288	–	2,274	–
Total agribusiness	10,284	1,112	5,963	–	288	–	16,535	1,112
Energy	53	–	–	–	–	–	53	–
Total	$ 112,308	$ 221,428	$ 12,757	$ 12,702	$ 82,017	$ 2,572	$ 207,082	$ 236,702

	December 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,189	$ 231,829	$ 2,032	$ 10,734	$ 135,083	$ 2,821	$ 138,304	$ 245,384
Production and intermediate-term	88,931	51,215	6,896	7,476	–	–	95,827	58,691
Agribusiness								
Loans to cooperatives	3,348	–	765	–	–	–	4,113	–
Processing and marketing	15,543	19,838	4,125	–	–	–	19,668	19,838
Farm-related business	989	132	1,441	–	294	–	2,724	132
Total agribusiness	19,880	19,970	6,331	–	294	–	26,505	19,970
Communication	2,387	–	–	–	–	–	2,387	–
Energy	1,699	–	–	–	–	–	1,699	–
Total	$ 114,086	$ 303,014	$ 15,259	$ 18,210	$ 135,377	$ 2,821	$ 264,722	$ 324,045

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 June 30, 2012 and indicates that approximately 36.04 percent of loans had maturities of less than one year:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 129,574	$ 295,541	$ 171,656	$ 596,771
Production and intermediate term	170,488	46,056	26,076	242,620
Agribusiness				
Loans to cooperatives	221	538	–	759
Processing and marketing	14,170	6,068	9,270	29,508
Farm-related business	4,009	7,299	1,020	12,328
Total agribusiness	18,400	13,905	10,290	42,595
Communication	–	–	–	–
Energy	53	–	–	53
Rural residential real estate	1,950	855	4,315	7,120
Total Loans	$ 320,465	$ 356,357	$ 212,337	$ 889,159

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.

	June 30, 2012	December 31, 2011
Real estate mortgage:		
Acceptable	67.40%	70.19%
OAEM	11.73	7.00
Substandard/doubtful/loss	20.87	22.81
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	77.92%	76.32%
OAEM	5.46	8.14
Substandard/doubtful/loss	16.62	15.54
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	76.00%	94.67%
OAEM	24.00	5.33
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	82.53%	67.95%
OAEM	6.88	23.05
Substandard/doubtful/loss	10.59	9.00
	100.00%	100.00%
Farm-related business:		
Acceptable	83.50%	88.29%
OAEM	1.88	0.53
Substandard/doubtful/loss	14.62	11.18
	100.00%	100.00%

	June 30, 2012	December 31, 2011
Total agribusiness:		
Acceptable	82.69%	76.23%
OAEM	5.74	14.80
Substandard/doubtful/loss	11.57	8.97
	100.00%	100.00%
Communication:		
Acceptable	–%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	–%	100.00%
Energy and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	69.61%	70.77%
OAEM	2.48	0.97
Substandard/doubtful/loss	27.91	28.26
	100.00%	100.00%
Total Loans:		
Acceptable	71.01%	72.24%
OAEM	9.66	7.65
Substandard/doubtful/loss	19.33	20.11
	100.00%	100.00%

The following table provides an age analysis of past due loans and related accrued interest.

	June 30, 2012					
	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	$ 20,005	$ 44,636	$ 64,641	$ 535,299	$ 599,940	$ 523
Production and intermediate-term	4,851	15,067	19,918	223,484	243,402	–
Agribusiness						
Loans to cooperatives	–	–	–	763	763	–
Processing and marketing	(10)	–	(10)	29,615	29,605	–
Farm-related business	87	1,668	1,755	10,618	12,373	–
Total agribusiness	77	1,668	1,745	40,996	42,741	–
Communication	–	–	–	–	–	–
Energy and water/waste disposal	–	–	–	53	53	–
Rural residential real estate	339	1,418	1,757	5,395	7,152	–
Total	$ 25,272	$ 62,789	$ 88,061	$ 805,227	$ 893,288	$ 523

	December 31, 2011					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 31,109	$ 55,753	$ 86,862	$ 578,034	$ 664,896	$ –
Production and intermediate-term	5,149	17,528	22,677	235,754	258,431	182
Agribusiness						
Loans to cooperatives	–	–	–	4,118	4,118	–
Processing and marketing	–	–	–	33,011	33,011	–
Farm-related business	69	1,663	1,732	14,625	16,357	–
Total agribusiness	69	1,663	1,732	51,754	53,486	–
Communication	–	–	–	2,317	2,317	–
Energy and water/waste disposal	–	–	–	1,693	1,693	–
Rural residential real estate	221	1,674	1,895	6,144	8,039	–
Total	$ 36,548	$ 76,618	$ 113,166	$ 875,696	$ 988,862	$ 182

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

Nonperforming assets (including related accrued interest) and related credit quality statistics at period end were as follows:

	June 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 77,476	$ 83,179
Production and intermediate-term	32,855	25,005
Agribusiness		
Processing and marketing	(9)	389
Farm-related business	1,662	1,663
Total agribusiness	1,653	2,052
Rural residential real estate	1,665	1,912
Total nonaccrual loans	$ 113,649	$ 112,148
Accruing restructured loans:		
Real estate mortgage	$ 2,220	$ 1,439
Production and intermediate-term	1,765	1,800
Agribusiness		
Processing and marketing	–	–
Farm-related business	–	–
Total agribusiness	–	–
Rural residential real estate	–	–
Total accruing restructured loans	$ 3,985	$ 3,239
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 523	$ –
Production and intermediate-term	–	182
Agribusiness		
Processing and marketing	–	–
Farm-related business	–	–
Total agribusiness	–	–
Rural residential real estate	–	–
Total accruing loans 90 days or more past due	$ 523	$ 182
Total nonperforming loans	$ 118,157	$ 115,569
Other property owned	9,148	12,150
Total nonperforming assets	$ 127,305	$ 127,719
Nonaccrual loans as a percentage of total loans	12.78%	11.39%
Nonperforming assets as a percentage of total loans and other property owned	14.17%	12.82%
Nonperforming assets as a percentage of capital	62.83%	62.25%

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

	June 30, 2012	December 31, 2011
Impaired nonaccrual loans:		
Current as to principal and interest	$ 36,093	$ 28,994
Past due	77,556	83,154
Total impaired nonaccrual loans	113,649	112,148
Impaired accrual loans:		
Restructured	3,985	3,239
90 days or more past due	523	182
Total impaired accrual loans	4,508	3,421
Total impaired loans	$ 118,157	$ 115,569

The following tables present additional information concerning impaired loans and related allowance by loan type at period end.

	June 30, 2012			Quarter Ended June 30, 2012		Six Months Ended June 30, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 38,071	$ 59,026	$ 4,853	$ 37,818	$ 80	$ 38,084	$ 230
Production and intermediate-term	8,620	16,397	1,313	8,563	18	8,623	52
Agribusiness							
Processing and marketing	(66)	7	–	(65)	–	(66)	–
Farm-related business	1,668	2,663	133	1,657	4	1,669	9
Total agribusiness	1,602	2,670	133	1,592	4	1,603	9
Rural residential real estate	1,469	2,281	69	1,458	3	1,469	9
Total	$ 49,762	$ 80,374	$ 6,368	$ 49,431	$ 105	$ 49,779	$ 300
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 42,148	$ 54,539	$ –	$ 41,870	$ 89	$ 42,165	$ 255
Production and intermediate-term	26,000	35,806	–	25,826	55	26,008	157
Agribusiness							
Processing and marketing	57	–	–	56	–	56	–
Farm-related business	(6)	66	–	(6)	–	(6)	1
Total agribusiness	51	66	–	50	–	50	1
Rural residential real estate	196	336	–	196	–	197	1
Total	$ 68,395	$ 90,747	$ –	$ 67,942	$ 144	$ 68,420	$ 414
Total impaired loans:							
Real estate mortgage	$ 80,219	$ 113,565	$ 4,853	$ 79,688	$ 169	$ 80,249	$ 485
Production and intermediate-term	34,620	52,203	1,313	34,389	73	34,631	209
Agribusiness							
Processing and marketing	(9)	7	–	(9)	–	(10)	–
Farm-related business	1,662	2,729	133	1,651	3	1,663	10
Total agribusiness	1,653	2,736	133	1,642	3	1,653	10
Rural residential real estate	1,665	2,617	69	1,654	4	1,666	10
Total	$ 118,157	$ 171,121	$ 6,368	$ 117,373	$ 249	$ 118,199	$ 714

	December 31, 2011			Year Ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 24,866	$ 34,176	$ 2,127	$ 26,622	$ 235
Production and intermediate-term	5,133	11,784	398	5,496	49
Agribusiness					
Farm-related business	1,663	2,663	81	1,780	16
Total agribusiness	1,663	2,663	81	1,780	16
Rural residential real estate	1,616	2,425	74	1,730	15
Total	$ 33,278	$ 51,048	$ 2,680	$ 35,628	$ 315
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 59,752	$ 75,260	$ –	$ 63,971	$ 566
Production and intermediate-term	21,854	30,946	–	23,396	207
Agribusiness					
Processing and marketing	389	628	–	416	3
Farm-related business	–	136	–	–	–
Total agribusiness	389	764	–	416	3
Rural residential real estate	296	761	–	317	3
Total	$ 82,291	$ 107,731	$ –	$ 88,100	$ 779
Total impaired loans:					
Real estate mortgage	$ 84,618	$ 109,436	$ 2,127	$ 90,593	$ 801
Production and intermediate-term	26,987	42,730	398	28,892	256
Agribusiness					
Processing and marketing	389	628	–	416	3
Farm-related business	1,663	2,799	81	1,780	16
Total agribusiness	2,052	3,427	81	2,196	19
Rural residential real estate	1,912	3,186	74	2,047	18
Total	$ 115,569	$ 158,779	$ 2,680	$ 123,728	$ 1,094

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

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

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at March 31, 2012	$ 9,821	$ 955	$ 322	$ –	$ –	$ 109	$ 11,207
Charge-offs	(5,700)	(274)	–	–	–	(13)	(5,987)
Recoveries	76	123	–	–	–	2	201
Provision for loan losses	3,821	1,101	(64)	–	–	(3)	4,855
Balance at June 30, 2012	$ 8,018	$ 1,905	$ 258	$ –	$ –	$ 95	$ 10,276
Balance at December 31, 2011	$ 9,437	$ 2,574	$ 520	$ 1	$ 1	$ 133	$ 12,666
Charge-offs	(15,214)	(2,310)	–	–	–	(32)	(17,556)
Recoveries	1,117	136	–	–	–	4	1,257
Provision for loan losses	12,678	1,505	(262)	(1)	(1)	(10)	13,909
Balance at June 30, 2012	$ 8,018	$ 1,905	$ 258	$ –	$ –	$ 95	$ 10,276
Balance at March 31, 2011	$ 6,126	$ 2,386	$ 1,300	$ 4	$ –	$ 115	$ 9,931
Charge-offs	(2,600)	(555)	(976)	–	–	(9)	(4,140)
Recoveries	185	156	2	–	–	–	343
Provision for loan losses	4,065	390	812	–	–	17	5,284
Balance at June 30, 2011	$ 7,776	$ 2,377	$ 1,138	$ 4	$ –	$ 123	$ 11,418
Balance at December 31, 2010	$ 7,684	$ 1,878	$ 955	$ 162	$ –	$ –	$ 10,679
Charge-offs	(3,984)	(1,174)	(976)	–	–	(14)	(6,148)
Recoveries	273	499	6	825	–	–	1,603
Provision for loan losses	3,803	1,174	1,153	(983)	–	137	5,284
Balance at June 30, 2011	$ 7,776	$ 2,377	$ 1,138	$ 4	$ –	$ 123	$ 11,418
Loans individually evaluated for impairment	$ 4,381	$ 1,114	$ –	$ –	$ –	$ 4	$ 5,499
Loans collectively evaluated for impairment	3,165	592	125	–	–	26	3,908
Loans acquired with deteriorated credit quality	472	199	133	–	–	65	869
Balance at June 30, 2012	$ 8,018	$ 1,905	$ 258	$ –	$ –	$ 95	$ 10,276
Loans individually evaluated for impairment	$ 1,372	$ 249	$ –	$ –	$ –	$ 12	$ 1,633
Loans collectively evaluated for impairment	7,310	2,175	439	1	1	60	9,986
Loans acquired with deteriorated credit quality	755	150	81	–	–	61	1,047
Balance at December 31, 2011	$ 9,437	$ 2,574	$ 520	$ 1	$ 1	$ 133	$ 12,666
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	$ 61,416	$ 26,962	$ (10)	$ –	$ –	$ 125	$ 88,493
Loans collectively evaluated for impairment	522,484	210,527	41,089	–	53	5,486	779,639
Loans acquired with deteriorated credit quality	16,040	5,913	1,662	–	–	1,541	25,156
Ending balance at June 30, 2012	$ 599,940	$ 243,402	$ 42,741	$ –	$ 53	$ 7,152	$ 893,288
Loans individually evaluated for impairment	$ 102,169	$ 31,828	$ 2,517	$ –	$ –	$ 1,848	$ 138,362
Loans collectively evaluated for impairment	538,209	219,934	49,306	2,317	1,693	4,460	815,919
Loans acquired with deteriorated credit quality	24,518	6,669	1,663	–	–	1,731	34,581
Ending balance at December 31, 2011	$ 664,896	$ 258,431	$ 53,486	$ 2,317	$ 1,693	$ 8,039	$ 988,862

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

	Three months ended June 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 1,209	$ 5,536	$ –	$ 6,745
Production and intermediate-term	–	1,849	–	1,849
Total	$ 1,209	$ 7,385	$ –	$ 8,594

	Three months ended June 30, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 1,209	$ 5,534	$ –	$ 6,743	$ 357	$ (350)
Production and intermediate-term	–	1,847	–	1,847	–	–
Farm-related business	–	–	–	–	1	–
Total	$ 1,209	$ 7,381	$ –	$ 8,590	$ 358	$ (350)

	Six months ended June 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 1,742	$ 8,613	$ –	$ 10,355
Production and intermediate-term	–	2,093	–	2,093
Total	$ 1,742	$ 10,706	$ –	$ 12,448

	Six months ended June 30, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 1,741	$ 8,455	$ –	$ 10,196	$ 383	$ (350)
Production and intermediate-term	–	2,095	–	2,095	–	–
Farm-related business	–	–	–	–	1	–
Total	$ 1,741	$ 10,550	$ –	$ 12,291	$ 384	$ (350)

	Three months ended June 30, 2011			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 2,085	$ –	$ 2,085
Total	$ –	$ 2,085	$ –	$ 2,085

	Three months ended June 30, 2011					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 10	$ 2,054	$ –	$ 2,064	$ 26	$ (18)
Total	$ 10	$ 2,054	$ –	$ 2,064	$ 26	$ (18)

	Six months ended June 30, 2011			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 126	$ 2,584	$ –	$ 2,710
Production and intermediate-term	–	235	–	235
Total	$ 126	$ 2,819	$ –	$ 2,945

	Six months ended June 30, 2011					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 135	$ 2,558	$ –	$ 2,693	$ 26	$ (18)
Production and intermediate-term	–	210	–	210	–	–
Total	$ 135	$ 2,768	$ –	$ 2,903	$ 26	$ (18)

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

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

	Three months ended June 30, 2012	Six months ended June 30, 2012
Defaulted troubled debt restructurings:		
Real estate mortgage	$ 1,673	$ 2,199
Production and intermediate-term	3,323	3,356
Total	$ 4,996	$ 5,555

TDRs outstanding at period end totaled $25,432, of which $21,447 were in nonaccrual status.

Purchased Impaired Loan Disclosures

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

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

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

As discussed in Note 6, effective January 1, 2011, Farm Credit of North Florida, ACA (NFL), and Farm Credit of Southwest Florida, ACA (SWFL), merged with and into Farm Credit of South Florida, ACA (SFL), which then changed its name to Farm Credit of Florida, ACA (FCFL). The merger was accounted for under the acquisition method of accounting guidance.

In connection with the merger, SFL (now FCFL) purchased impaired loans from NFL and SWFL that are not accounted for as debt securities. The carrying amounts of those loans included in the balance sheet amounts of loans receivable at June 30, 2012, were as follows.

	June 30, 2012
Real estate mortgage	$ 16,040
Production and intermediate-term	5,913
Agribusiness	
Loans to cooperatives	–
Processing and marketing	–
Farm-related business	1,662
Total agribusiness	1,662
Communication	–
Energy	–
Rural residential real estate	1,541
Total Loans	$ 25,156

At June 30, 2012, the allowance for loan losses related to these loans was $869 compared with $1,047 at December 31, 2011. During the three and six month periods ended June 30, 2012, provision expense on these loans was $45 and $305 compared with $453 and $1,141 for the three and six month periods ended June 30, 2011. There were no reversals of allowance for loan losses during the period ended June 30, 2012 for these acquired loans. See above for a summary of changes in the total allowance for loan losses for the period ended June 30, 2012. There were no loans acquired during the six months ended June 30, 2012 for where it was probable at acquisition that all contractually required payments would not be collected. The total of loans acquired during 2011 for which it was probable at acquisition that all contractually required payments would not be collected are as follows.

Real estate mortgage	$ 57,735
Production and intermediate-term	18,862
Agribusiness	
Loans to cooperatives	–
Processing and marketing	2,196
Farm-related business	1,734
Total agribusiness	3,930
Communication	–
Energy	–
Rural residential real estate	1,769
Total Loans	$ 82,296

Certain of the loans acquired by FCFL in the business combination that were within the scope of purchased impaired loan guidance are accounted for using a cash basis method of income recognition because FCFL cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. As discussed previously, the real estate market in Florida is extremely unstable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, FCFL does not have the information necessary to reasonably estimate cash flows expected to be collected to compute its yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance. The purchase value of such impaired loans acquired during 2011 totaled $82.3 million. The carrying amount at June 30, 2012 was $25.2 million. These amounts are included in the carrying values, net of allowance, described above.

NOTE 4 — EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2012	2011
Pension	$ 1,749	$ 1,708
401(k)	173	170
Other postretirement benefits	181	219
Total	$ 2,103	$ 2,097

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

	Actual YTD Through 6/30/12	Projected Contributions For Remainder of 2012	Projected Total Contributions 2012
Pension	$ 22	$ 2,726	$ 2,748
Other postretirement benefits	120	125	245
Total	$ 142	$ 2,851	$ 2,993

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

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

NOTE 5 — 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 nonrecurring basis. These assets and liabilities consist primarily of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 5.12 percent of the issued stock of the Bank as of June 30, 2012 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.9 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $253 million for the first six months of 2012. In addition, the Association has an investment of $5,761 related to other Farm Credit institutions.

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at June 30, 2012 consist of assets held in trust funds related to deferred compensation plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis at June 30, 2012.

For investment securities, the fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.

The carrying value of accrued interest approximates its fair value.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. 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 also could 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 June 30, 2012 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves (see Level 3 below).

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. This

assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

For investment securities, the fair value is determined by discounting the expected future cash flows using extrapolated interest rates for similar assets.

Other property owned is classified as a level 3 asset at June 30, 2012. The fair value 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. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For 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; therefore, the related credit risk is not significant.

Information about Sensitivity to Changes in Significant Unobservable Inputs

For certain recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Other fair value measurements may use contractual payments and a risk adjusted discount rate, which is generated using the Association's 14-point risk rating scale. An increase in risk rating will generally produce a lower fair value measurement.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2012 and 2011. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first six months of 2012 and 2011.

	Standby Letters Of Credit
Balance at January 1, 2012	$ 240
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income (loss)	–
Purchases	–
Sales	–
Issuances	–
Settlements	(150)
Transfers in and/or out of level 3	–
Balance at June 30, 2012	$ 90

	Standby Letters Of Credit
Balance at January 1, 2011	$ 141
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income (loss)	–
Purchases	–
Sales	–
Issuances	134
Settlements	–
Transfers in and/or out of level 3	–
Balance at June 30, 2011	$ 275

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	Appraisal	Income and expense	*
		Comparable sales	*
		Replacement costs	*
		Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment rates Probability of default Loss severity Annualized volatility
Mission-related investments	Discounted cash flow	Probability of default Risk adjusted discount rate
Asset-backed securities	Discounted cash flow	Prepayment rates Probability of default Loss severity
Other investments	Discounted cash flow	Probability of default Risk adjusted discount rate
Accrued interest	Carrying value	Coupon interest rates
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment rates Probability of default Loss severity Annualized volatility
Subordinate debt payable to other Farm Credit institutions	Discounted cash flow	Probability of default Risk adjusted discount rate

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

	June 30, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Comprehensive Income
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,999	$ 1,999	$ –	$ –	$ 1,999	$ (9)
Recurring Assets	$ 1,999	$ 1,999	$ –	$ –	$ 1,999	$ (9)
Liabilities:						
Standby letters of credit	$ 90	$ –	$ –	$ 90	$ 90	$ –
Recurring Liabilities	$ 90	$ –	$ –	$ 90	$ 90	$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 111,789	$ –	$ –	$ 111,789	$ 111,789	$ (19,987)
Other property owned	9,148	–	–	10,063	10,063	(1,463)
Nonrecurring Assets	$ 120,937	$ –	$ –	$ 121,852	$ 121,852	$ (21,450)
Other Financial Instruments						
Assets:						
Cash	$ 291	$ 291	$ –	$ –	$ 291	
Mission-related investments	9,590	–	–	10,943	10,943	
Asset-backed securities	22,269	–	22,085	–	22,085	
Loans	767,094	–	–	790,061	790,061	
Other investments	5,316	–	–	5,411	5,411	
Accrued interest receivable	4,374	–	4,374	–	4,374	
Other Assets	$ 808,934	$ 291	$ 26,459	$ 806,415	$ 833,165	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 751,540	$ –	$ –	$ 748,166	$ 748,166	
Accrued interest payable	1,534	–	1,534	–	1,534	
Other Liabilities	$ 753,074	$ –	$ 1,534	$ 748,166	$ 749,700	

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2011 for each of the fair value hierarchy levels:

	December 31, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	$ 2,016	$ –	$ –	$ 2,016
Total Assets	$ 2,016	$ –	$ –	$ 2,016
Liabilities:				
Standby letters of credit	$ –	$ –	$ 240	$ 240
Total Liabilities	$ –	$ –	$ 240	$ 240

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2011 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	$ –	$ –	$ 30,504	$ 30,504	$ (20,176)
Other property owned	$ –	$ –	$ 8,626	$ 8,626	$ (1,277)

The estimated fair values of the Association's financial instruments at December 31, 2011 are as follows:

	December 31, 2011	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 439	$ 439
Loans, net of allowance	$ 971,692	$ 1,002,526
Accrued interest receivable	$ 4,765	$ 4,765
Investment securities	$ 34,547	$ 35,598
Other investments	$ 8,021	$ 8,114
Assets held in trust funds	$ 2,016	$ 2,016
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 862,905	$ 869,415

NOTE 6 – MERGER ACTIVITY

Effective January 1, 2011, Farm Credit of North Florida and Farm Credit of Southwest Florida merged into Farm Credit of South Florida. The merged associations operate under the name of Farm Credit of Florida. The primary reason for the merger was based on a determination that the combined organization would be financially and operationally stronger than either of the associations on a stand-alone basis. The merger was accounted for under the acquisition method of accounting.

Prior to the merger, the associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged association. This agreement relates only to a finite pool of high risk assets of the merged association existing at the merger date, which had a net total of approximately $144.7 million and $250.0 million at June 30, 2012 and January 1, 2011, respectively. Through this agreement, the merged association will absorb substantial losses on these high risk assets in advance of the Bank providing financial assistance. This financial "safety net" from the Bank does not include losses that are sustained outside of the high risk asset pool. The agreement provides for limits on the merged association's ability to make patronage distributions and certain other restrictions which are imposed if the merged association's capital levels fail to meet minimum established levels.

As the accounting acquirer, South Florida accounted for the transaction by using its historical information and accounting policies and adding the identifiable assets and liabilities of North Florida and Southwest Florida as of the acquisition date of January 1, 2011 at their respective fair values.

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

Management believes that because the stock in each association is fixed in value (although subject to impairment), the Association's stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the Association identified and estimated the acquisition date fair value of North Florida and Southwest Florida's equity interests instead of the acquisition date fair value of the Association's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from North Florida and Southwest Florida, were measured based on various estimates using assumptions that the Association's management believes are reasonable utilizing information currently available. Use of

different estimates and judgments could yield materially different results. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. As a result, management recorded no goodwill.

The following table reflects the fair values of the identifiable assets acquired and liabilities assumed from North Florida and Southwest Florida, as well as the merged entity balances at January 1, 2011:

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

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

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

NOTE 7 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Employee Benefit Plans
Balance at December 31, 2011	$ (152)
Other comprehensive income	(9)
Balance at June 30, 2012	$ (161)
Balance at December 31, 2010	$ –
Other comprehensive income	–
Balance at June 30, 2011	$ –

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Other Comprehensive Income and Reclassification Amounts:				
Amounts reclassified to net periodic pension costs	$ 1	$ –	$ 2	$ –
Net gain (loss) during period	–	–	(11)	–
Defined benefit post retirement plans, net	$ 1	$ –	$ (9)	$ –

NOTE 8 – REGULATORY ENFORCEMENT MATTERS

On June 15, 2012 the Farm Credit Administration (FCA) entered into a written supervisory agreement with the Board of Directors of the Association. The written supervisory agreement requires the Association to take corrective actions and other actions with respect to certain areas of its operations, including board governance, director fiduciary duties and standards of conduct, board consultant functions, staffing and succession planning, asset quality, collateral risk, allowance for loan losses, internal audit, board policies, compliance with requirements of the Financial Assistance Agreement, and business planning and reporting. In addition, the Association is operating under Supervisory Conditions of Merger and must maintain compliance with all requirements and conditions.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, inadequate management succession and human capital planning, perceived weaknesses in board governance and reduced earnings.

The Association has taken action to correct the weaknesses in its board operations and policies, asset quality, internal audit and management reporting; however, all necessary improvements have not been realized as of August 8, 2012.

The Board will address the requirements of the agreement by conducting a staffing study and adopting a human capital and succession plan, establishing a collateral risk program, including a capital contingency plan into the annual business plan and by establishing improved credit policy direction and guidance.

The Board will continue engaging an independent consultant to provide advice in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement. Both the Board and Senior Management are committed to continuing the administration of the Association in a sound manner, compliant with all FCA Regulations.

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

NOTE 9 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through August 8, 2012, which is the date the financial statements were issued.