



**3<sup>rd</sup> Quarter 2011**  
**Financial Report to Stockholders**



**REPORT OF MANAGEMENT**

The undersigned certify that this report has been prepared and reviewed in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of his knowledge and belief.



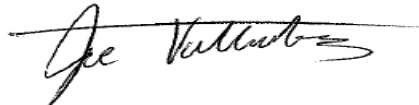
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Roger Brist, Chief Executive Officer  
November 10, 2011



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Gregory T. Richbourg, Audit Committee Chairman  
November 10, 2011



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Joe Valladares, Chief Financial Officer  
November 10, 2011

## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*(Dollars in thousands except as noted)*

The following commentary reviews the financial performance of the AgriLand, Farm Credit Services (Agricultural Credit Association), referred to as the Association for the quarter and nine months ended September 30, 2011. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2010 AgriLand, Farm Credit Services Annual Report.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's Audit Committee.

### **Significant Events:**

For the nine months ending September 30, 2011 the Association continued efforts towards strengthening its financial position and managing the credit risk within the loan portfolio. Net income declined 18.2 percent from \$3,735 to \$3,054 in September 2010 and 2011, respectively. The decrease in net income is primarily attributed to a decrease in loan fees and other noninterest income. Earnings through the third quarter helped strengthen the Association's capital position to 18.7 percent as compared to 16.1 percent in December 2010.

Loan volume declined 9.9 percent, or \$28,237, as compared to December 31, 2010. The Association's 2011 Strategic Business Plan calls for more aggressive efforts towards increasing the Association's loan portfolio with loans to creditworthy borrowers. Collection efforts on high risk assets, weak economic conditions, and debt reduction from borrowers continue to hamper growth opportunities. The focus towards strong, high quality growth will improve the Association's future earnings.

Efforts to collect high risk assets have been successful, but the Association's credit quality remains weakened for the first nine months of 2011 due to continued stress in the dairy, beef, poultry and nursery industries. Dairy loans were downgraded in 2009 and 2010 due to a decline in milk prices which adversely impacted dairy profitability. The dairy industry has since regained profitability which enabled certain loans to be upgraded in classification. During the third quarter, large reduction in impaired dairy and nursery loans further improved credit quality. The upgrades in classification reduced the Association's nonaccrual loans from \$17,112 to \$2,199 in December 2010, and September 2011, respectively.

During the first quarter of 2010, the Association exchanged \$14,675 of mortgage loans for Farmer Mac Mortgage Securities Corporation (FMMS) guaranteed securities that previously were covered under a Long-Term Standby Commitment to Purchase Agreement with Farmer Mac. This resulted in a reclassification of \$14,675 loan assets to investment assets. No gain or loss was recognized in the financial statements upon completion of the exchange transaction. The Association continues to service the loans included in this transaction.

### **Loan Portfolio:**

Total loans outstanding at September 30, 2011, including nonaccrual loans and sales contracts, were \$ 256,032 compared to \$ 284,269 at December 31, 2010, reflecting a decrease of 9.9 percent. This decrease in loans is attributed to decreased demand and mortgage loans exchanged for FMMS investment securities. Total assets have shown a similar decrease for the same period due to decreased loan volume. Nonaccrual loans as a percentage of total loans outstanding were 0.9 percent at September 30, 2011, compared to 6.0 percent at December 31, 2010.

The Association recorded \$31 in recoveries and \$76 in charge-offs for the quarter ending September 30, 2011, and \$11 in recoveries and \$488 in charge-offs for the same period in 2010. The Association's allowance for loan losses was 1.5 percent and 1.3 percent of total loans outstanding as of September 30, 2011 and December 31, 2010, respectively.

### **Risk Exposure:**

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. As of September 2011, the Association's high-risk asset portfolio decreased as compared to year-end 2010. This decrease is primarily attributed to a decrease in nonaccrual loans from \$17,112 to \$2,199 in December 2010 and September 2011, respectively.

<i>(dollars in thousands)</i>	September 30, 2011 (unaudited)		December 31, 2010	
	Amount	%	Amount	%
Nonaccrual	\$ 2,199	21.1%	\$ 17,112	83.4%
Formally restructured	5,128	49.2%	2,352	11.4%
Other property owned, net	3,094	29.7%	1,066	5.2%
<b>Total</b>	<b>\$ 10,421</b>	<b>100.0%</b>	<b>\$ 20,530</b>	<b>100.0%</b>

**Investments:**

During the first quarter of 2010, the Association exchanged \$14,675 of mortgage loans for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed security that previously were covered under a Long-Term Standby Commitment to Purchase Agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transaction. The Association continues to service the loans included in this transaction. These investments in guaranteed securities are included in this report's Consolidated Balance Sheet as Investments.

**Results of Operations:**

The Association's net income was \$820 for the three months ended September 30, 2011 as compared to a net income of \$921 for the same period in 2010. The \$101 decrease in net income is due to decreased loan fees, decreased patronage income, and decreased other income. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs was implemented in 2010, resulting in the amortization in net origination fees, which will be amortized over the life of the loans as an adjustment to yield in net interest income. Net interest income was \$2,768 for the three months ended September 30, 2011, compared to \$2,498 for the same period in 2010; the increase is due to increased yields on earning assets.

The Association's return on average assets for the three months ended September 30, 2011, was 1.35 percent compared to 0.86 percent for the same period in 2010. The Association's return on average equity for the three months ended September 30, 2011, was 7.68 percent, compared to 5.50 percent for the same period in 2010.

**Liquidity and Funding Sources:**

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (Bank), which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

<i>(dollars in thousands)</i>	(unaudited)	
	September 30, 2011	December 31, 2010
Note payable to the Bank	\$ 220,220	\$ 251,595
Accrued interest on note payable	544	716
<b>Total</b>	<b>\$ 220,764</b>	<b>\$ 252,311</b>

**Capital Resources:**

The Association's capital was \$55,004 and \$52,157 in September 2011 and December 2010, respectively. Capital increased by \$2,847 primarily due to an increase in earnings.

The Association's average permanent capital ratio was 18.2 percent for the three months ended September 2011. The average total surplus ratio and core surplus ratio were 17.6 percent and 17.4 percent, respectively, for the same period. FCA regulations require a minimum of 7.0 percent permanent capital and total surplus ratio and a 3.5 percent core surplus ratio. Current day ratios are at 18.7 percent for permanent capital, total surplus and core surplus were 18.0 percent and 17.8 percent, respectively.

**Significant Recent Accounting Pronouncements:**

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance 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:

- 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.
- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

This guidance is to be applied retrospectively. For public entities, it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, “Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs.” The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities).
2. Aligning 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. Clarifying 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. Clarifying that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity’s holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance.
6. Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

In January 2011, the FASB issued guidance entitled, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings.” This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings 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 troubled debt restructurings (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

In April 2011, the FASB issued its guidance entitled, “A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring,” which provides for clarification on whether a restructuring constitutes a 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. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods

within those annual periods. The bank and associations are currently evaluating the impact of adoption of this Standard on the financial condition or results of operations. The adoption will result in additional disclosures.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses,” which is intended to provide additional information to assist financial statement users in assessing an entity’s credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, 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 disaggregated 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 by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of this Standard did not have an impact on the Association’s financial condition or results of operations, but did result in additional disclosures for annual reporting periods ending after December 15, 2011.

In January 2010, the FASB issued guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust 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 are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the Association’s financial condition or results of operations but did result in additional disclosures.

**Relationship with the Farm Credit Bank of Texas:**

The Association’s financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder’s investment in the Association. The Management’s Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2010 Annual Report of Agriland, Farm Credit Services more fully describe the Association’s relationship with the Bank.

The Tenth Farm Credit District’s (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District’s quarterly and annual stockholder reports also can be requested by e-mail at [fcf@farmcreditbank.com](mailto:fcf@farmcreditbank.com). The District makes its annual and quarterly stockholder reports available on its Web site at [www.farmcreditbank.com](http://www.farmcreditbank.com).

The Association’s quarterly stockholder reports are also available free of charge, upon request. These reports are available no later than 40 days after quarter-end. These reports can be obtained by writing to Agriland, Farm Credit Services, and 3210 WNW Loop 323, Tyler, Texas 75701 or calling (903)593-6609. Copies of the Association’s quarterly stockholder reports can also be requested by e-mail at [jvalladares@agriland.com](mailto:jvalladares@agriland.com). Agriland makes its annual and quarterly stockholder reports available on its Web site at [www.agriland.com](http://www.agriland.com).

AGRILAND, FARM CREDIT SERVICES

**CONSOLIDATED BALANCE SHEET**

(dollars in thousands)

	<b>September 30 2011 (unaudited)</b>	December 31 2010	September 30 2010 (unaudited)
<b><u>ASSETS</u></b>			
Cash.....	\$ 50	\$ 103	\$ 108
Investments.....	11,224	12,377	13,340
Loans.....	256,032	284,269	307,801
Less allowance for loan losses.....	(3,726)	(3,781)	(3,389)
Net loans.....	252,306	280,488	304,412
Accrued interest receivable.....	2,734	2,565	3,431
Investment in Farm Credit Bank of Texas			
Capital stock.....	6,406	6,406	6,923
Other.....	797	1,345	1,564
Deferred tax assets.....	1,933	2,252	2,182
Other property owned, net.....	3,094	1,066	2,248
Premises and equipment, net.....	993	1,100	1,067
Other assets.....	477	362	788
Total assets.....	<b>\$ 280,014</b>	<b>\$ 308,064</b>	<b>\$ 336,063</b>
<b><u>LIABILITIES</u></b>			
Note payable to the Bank.....	220,220	251,595	280,279
Advance conditional payments.....	912	342	498
Accrued interest payable.....	544	716	794
Drafts outstanding.....	431	327	196
Patronage distributions payable.....	6	-	811
Other liabilities.....	2,897	2,927	2,671
Total liabilities.....	<b>\$ 225,010</b>	<b>\$ 255,907</b>	<b>\$ 285,249</b>
<b><u>MEMBERS' EQUITY</u></b>			
At-risk members' equity:			
Preferred stock.....	-	-	2,754
Capital stock and participation certificates.....	1,717	1,880	1,981
Allocated retained earnings.....	7,596	7,597	20,307
Unallocated retained earnings.....	45,875	42,826	25,740
Accumulated other comprehensive income (loss).....	(184)	(146)	31
Total members' equity.....	<b>55,004</b>	<b>52,157</b>	<b>50,813</b>
Total liabilities and members' equity.....	<b>\$ 280,014</b>	<b>\$ 308,064</b>	<b>\$ 336,062</b>

The accompanying notes are an integral part of these financial statements

AGRILAND, FARM CREDIT SERVICES

**CONSOLIDATED STATEMENT OF INCOME**

(dollars in thousands)

(unaudited)

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
<b><u>INTEREST INCOME</u></b>				
Loans.....	\$ 4,288	\$ 4,717	\$ 13,028	\$ 14,838
Investments.....	158	216	519	446
Other.....	49	50	153	111
Total interest income.....	<u>4,495</u>	<u>4,983</u>	<u>13,700</u>	<u>15,395</u>
<b><u>INTEREST EXPENSE</u></b>				
Note payable to the Bank.....	<u>1,727</u>	<u>2,485</u>	<u>5,563</u>	<u>7,711</u>
Net interest income.....	<u>2,768</u>	<u>2,498</u>	<u>8,137</u>	<u>7,684</u>
<b><u>PROVISION FOR LOSSES</u></b>				
Provision for loan losses.....	51	243	322	827
Provision for acquired property losses.....	200	-	200	-
Net interest income after provision for losses.....	<u>2,517</u>	<u>2,255</u>	<u>7,615</u>	<u>6,857</u>
<b><u>NONINTEREST INCOME</u></b>				
Income from the Bank:				
Patronage income.....	245	332	734	1,017
Loan fees.....	57	79	73	268
Fees for financial related services.....	1	2	3	16
(Loss) gain on sale of other property owned, net.....	(40)	106	(38)	168
Other operating income.....	22	38	54	444
Total noninterest income.....	<u>285</u>	<u>557</u>	<u>826</u>	<u>1,913</u>
<b><u>NONINTEREST EXPENSES</u></b>				
Salaries and employee benefits.....	1,227	1,079	3,379	3,205
Directors' expense.....	63	48	200	192
Purchased services.....	31	123	167	337
Travel.....	94	64	225	183
Occupancy and equipment.....	73	84	205	205
Communications.....	24	21	74	71
Advertising.....	26	7	88	34
Public and member relations.....	29	23	101	90
Supervisory and exam expense.....	59	67	185	244
Insurance Fund premiums.....	32	38	103	116
Other operating expenses.....	62	117	342	313
Total noninterest expense.....	<u>1,720</u>	<u>1,671</u>	<u>5,069</u>	<u>4,990</u>
Income before taxes.....	<u>1,082</u>	<u>1,141</u>	<u>3,372</u>	<u>3,780</u>
Provision for income taxes.....	<u>(262)</u>	<u>(220)</u>	<u>(318)</u>	<u>(45)</u>
Net income.....	<u>\$ 820</u>	<u>\$ 921</u>	<u>\$ 3,054</u>	<u>\$ 3,735</u>

The accompanying notes are an integral part of these financial statements

AGRILAND, FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)

(unaudited)

	Preferred Stock	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2009.....	\$ 2,754	\$ 2,216	\$ 20,367	\$ 22,809	\$ 82	\$ 48,228
Comprehensive income:						
Net Income.....	-	-	-	3,735	-	3,735
Change in unrealized gains (losses) on investment securities.....	-	-	-	-	-	-
Change in postretirement benefit plans.....	-	-	-	-	(51)	(51)
Total comprehensive income.....	-	-	-	3,735	(51)	3,684
Capital stock/participation certificates issued.....	-	186	-	-	-	186
Capital stock/participation certificates retired.....	-	(421)	-	-	-	(421)
Patronage distribution:						
Cash.....	-	-	-	(805)	-	(805)
Allocated.....	-	-	-	-	-	-
Issue allocated stock.....	-	-	-	-	-	-
Distribution adjustment.....	-	-	(60)	1	-	(59)
Balance at September 30, 2010.....	<u>\$ 2,754</u>	<u>\$ 1,981</u>	<u>\$ 20,307</u>	<u>\$ 25,740</u>	<u>\$ 31</u>	<u>\$ 50,813</u>
Balance at December 31, 2010.....	\$ -	\$ 1,880	\$ 7,597	\$ 42,826	\$ (146)	\$ 52,157
Comprehensive income:						
Net Income.....	-	-	-	3,054	-	3,054
Change in unrealized gains (losses) on investment securities.....	-	-	-	-	-	-
Change in postretirement benefit plans.....	-	-	-	-	(39)	(39)
Total comprehensive income.....	-	-	-	3,054	(39)	3,015
Capital stock/participation certificates issued.....	-	157	-	-	-	157
Capital stock/participation certificates retired.....	-	(320)	-	-	-	(320)
Patronage distribution:						
Cash.....	-	-	-	(5)	-	(5)
Allocated.....	-	-	-	-	-	-
Issue allocated stock.....	-	-	-	-	-	-
Distribution adjustment.....	-	-	(1)	1	-	-
Balance at September 30, 2011.....	<u>\$ -</u>	<u>\$ 1,717</u>	<u>\$ 7,596</u>	<u>\$ 45,876</u>	<u>\$ (185)</u>	<u>\$ 55,004</u>

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

**AGRILAND, FARM CREDIT SERVICES**  
**NOTES TO QUARTERLY FINANCIAL STATEMENT**

*(Unaudited)*

*(dollars in thousands except as noted)*

**NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

The Agriland, Farm Credit Services (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Anderson, Angelina, Bowie, Camp, Cass, Chambers, Cherokee, Collin, Cook, Dallas, Delta, Denton, Fannin, Franklin, Freestone, Grayson, Gregg, Hardin, Harrison, Henderson, Hopkins, Houston, Hunt, Jasper, Jefferson, Kaufman, Lamar, Leon, Liberty, Limestone, Marion, Montgomery, Morris, Nacogdoches, Newton, Orange, Panola, Polk, Rains, Red River, Rockwall, Rusk, Sabine, San Augustine, San Jacinto, Shelby, Smith, Titus, Trinity, Tyler, Upshur, Van Zandt, Walker and Wood in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The significant accounting policies followed and the financial condition and results of operations of the Association as of and for the year ended December 31, 2010 are contained in the 2010 Annual Report to Stockholders. These unaudited third quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Stockholders.

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance 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:

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- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

This guidance is to be applied retrospectively. For public entities, it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities).
2. Aligning 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. Clarifying 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. Clarifying 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.

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In April 2011, the FASB issued its guidance entitled, “A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring,” which provides for clarification on whether a restructuring constitutes a 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. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The bank and associations are currently evaluating the impact of adoption of this Standard on the financial condition or results of operations. The adoption will result in additional disclosures.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses,” which is intended to provide additional information to assist financial statement users in assessing an entity’s credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, 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 disaggregated 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 by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of this Standard did not have an impact on the Association’s financial condition or results of operations, but will result in additional disclosures for annual reporting periods ending after December 15, 2011.

In January 2010, the FASB issued guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust 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 are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the Association’s financial condition or results of operations but did result in additional disclosures.

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, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended September 30, 2011 are not necessarily indicative of the results to be expected for the year ended

December 31, 2011. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

**NOTE 2: INVESTMENTS**

**Mission-related and Other Investments Held-to-Maturity**

A summary of the amortized cost and fair value of mission-related and other investment securities held-to-maturity is as follows:

<u>September 30, 2011</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Fair Value</u>	<u>Weighted Average Yield</u>
Agricultural mortgage-backed securities	\$ 11,224	\$ 87	\$ 11,311	5.41%
Total	<b>\$ 11,224</b>	<b>\$ 87</b>	<b>\$ 11,311</b>	<b>5.41%</b>

<u>December 31, 2010</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Fair Value</u>	<u>Weighted Average Yield</u>
Agricultural mortgage-backed securities	\$ 12,377	\$ 72	\$ 12,449	5.97%
Total	<b>\$ 12,377</b>	<b>\$ 72</b>	<b>\$ 12,449</b>	<b>5.97%</b>

Effective February 2010, \$14,675 of agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the Association to receive a 30-basis-point fee for servicing the underlying loans.

**NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES**

A summary of loans follows:

<u>Loan Type</u>	<u>September 30 2011</u>		<u>December 31 2010</u>	
Production agriculture:				
Real estate mortgage	<b>\$ 190,419</b>	<b>74.4%</b>	\$ 199,639	70.2%
Production and intermediate term	<b>44,423</b>	<b>17.3%</b>	61,227	21.5%
Agribusiness:				
Processing and marketing	<b>9,577</b>	<b>3.7%</b>	9,117	3.2%
Farm related business	<b>1,772</b>	<b>0.7%</b>	2,421	0.9%
Loans to cooperatives	<b>75</b>	<b>0.0%</b>	1,398	0.5%
Rural residential real estate	<b>7,881</b>	<b>3.1%</b>	8,489	3.0%
Energy	<b>1,745</b>	<b>0.7%</b>	1,727	0.6%
Lease receivables	<b>140</b>	<b>0.1%</b>	251	0.1%
Total	<b>\$ 256,032</b>	<b>100.0%</b>	<b>\$ 284,269</b>	<b>100.0%</b>

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2011:

	Other Farm Credit Institutions	
	Participations Purchased	Participations Sold
Real estate mortgage	\$ 8,894	\$ 6,015
Production and intermediate term	823	-
Agribusiness	6,838	58,701
Energy	1,724	-
Rural residential real estate	-	-
Lease receivables	-	-
Total	<u>\$ 18,279</u>	<u>\$ 64,716</u>

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	<b>September 2011</b>	December 2010
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 954	\$ 4,023
Production and intermediate term	429	12,019
Agribusiness	684	485
Rural residential real estate	132	585
Energy and water/waste disposal	-	-
Lease receivables	-	-
Total nonaccrual loans	2,199	17,112
<b>Accruing restructured loans:</b>		
Real estate mortgage	2,440	617
Production and intermediate term	2,545	1,735
Agribusiness	143	-
Rural residential real estate	-	-
Energy and water/waste disposal	-	-
Lease receivables	-	-
Total accruing restructured loans	5,128	2,352
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	-	186
Production and intermediate term	-	167
Agribusiness	-	-
Rural residential real estate	-	-
Energy and water/waste disposal	-	-
Lease receivables	-	-
Total accruing loans 90 days or more past due	-	353
Total nonperforming loans	7,327	19,817
Other property owned	3,094	1,066
Total nonperforming assets	\$ 10,421	\$ 20,883

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- 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 factors, conditions and values that make collection-in-full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Real estate mortgage		
Acceptable	81.8 %	81.0 %
OAEM	15.1	13.0
Substandard/doubtful	<u>3.1</u>	<u>6.0</u>
	100.0	100.0
Production and intermediate term		
Acceptable	77.1	67.5
OAEM	15.9	7.3
Substandard/doubtful	<u>7.0</u>	<u>25.2</u>
	100.0	100.0
Loans to cooperatives		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	<u>-</u>	<u>-</u>
	100.0	100.0
Processing and marketing		
Acceptable	41.4	22.2
OAEM	58.6	77.8
Substandard/doubtful	<u>-</u>	<u>-</u>
	100.0	100.0
Farm-related business		
Acceptable	45.0	71.4
OAEM	-	-
Substandard/doubtful	<u>55.0</u>	<u>28.6</u>
	100.0	100.0
Energy and water/waste disposal		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	<u>-</u>	<u>-</u>
	100.0	100.0
Rural residential real estate		
Acceptable	94.1	90.8
OAEM	4.2	2.3
Substandard/doubtful	<u>1.7</u>	<u>6.9</u>
	100.0	100.0
Lease receivables		
Acceptable	100.0	92.2
OAEM	-	7.8
Substandard/doubtful	<u>-</u>	<u>-</u>
	100.0	100.0
Total Loans		
Acceptable	79.7	76.6
OAEM	16.3	13.3
Substandard/doubtful	<u>4.0</u>	<u>10.1</u>
	<u>100.0 %</u>	<u>100.0 %</u>

The following table provides an age analysis of past due loans (including accrued interest) as of September 30, 2011:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ -	\$ 513	\$ 513	\$ 191,995	\$ 192,508
Production and intermediate term	104	202	306	44,691	44,997
Loans to cooperatives	-	-	-	75	75
Processing and marketing	-	-	-	9,595	9,595
Farm-related business	-	225	225	1,555	1,780
Energy and water/waste disposal	-	-	-	1,752	1,752
Rural residential real estate	-	-	-	7,919	7,919
Lease receivables	-	-	-	140	140
Total	<u>\$ 104</u>	<u>\$ 940</u>	<u>\$ 1,044</u>	<u>\$ 257,722</u>	<u>\$ 258,766</u>

Note: 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.

Additional impaired loan information is as follows:

	At September 30, 2011			For the Three Months Ended September 30, 2011		For the Nine Months Ended September 30, 2011	
	Recorded Investment	Unpaid Principal	Related Allowance	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
		Balance <sup>a</sup>					
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	\$ 68	\$ 287	\$ 68	\$ 68	\$ -	\$ 72	\$ -
Production and intermediate term	30	356	25	104	-	633	32
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-	-	-
Rural residential real estate	132	132	31	134	-	139	-
Lease receivables	-	-	-	-	-	-	-
Total	<u>\$ 230</u>	<u>\$ 775</u>	<u>\$ 124</u>	<u>\$ 306</u>	<u>\$ -</u>	<u>\$ 844</u>	<u>\$ 32</u>
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 2,195	\$ 2,418	\$ -	\$ 2,374	\$ 49	\$ 2,337	\$ 100
Production and intermediate term	2,906	4,364	-	2,916	73	2,942	191
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	-	1,672	-	-	-	1	-
Farm-related business	827	827	-	835	9	698	28
Energy and water/waste disposal	-	-	-	-	-	-	-
Rural residential real estate	-	42	-	-	-	11	-
Lease receivables	-	-	-	-	-	-	-
Total	<u>\$ 5,928</u>	<u>\$ 9,323</u>	<u>\$ -</u>	<u>\$ 6,125</u>	<u>\$ 131</u>	<u>\$ 5,989</u>	<u>\$ 319</u>
Total impaired loans:							
Real estate mortgage	\$ 2,263	\$ 2,705	\$ 68	\$ 2,442	\$ 49	\$ 2,409	\$ 100
Production and intermediate term	2,936	4,720	25	3,020	73	3,575	223
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	-	1,672	-	-	-	1	-
Farm-related business	827	827	-	835	9	698	28
Communication	-	-	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-	-	-
Rural residential real estate	132	174	31	134	-	150	-
International	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-
Total	<u>\$ 6,158</u>	<u>\$ 10,098</u>	<u>\$ 124</u>	<u>\$ 6,431</u>	<u>\$ 131</u>	<u>\$ 6,833</u>	<u>\$ 351</u>

	At December 31, 2010			For the Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 66	\$ 69	\$ 58	\$ 72	\$ -
Production and intermediate term Loans to cooperatives	3,914	4,296	591	4,537	-
Processing and marketing	-	-	-	-	-
Farm-related business	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-
Rural residential real estate	264	261	38	262	-
Lease receivables	-	-	-	-	-
Total	<u>\$ 4,244</u>	<u>\$ 4,626</u>	<u>\$ 687</u>	<u>\$ 4,871</u>	<u>\$ -</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 11,922	\$ 12,253	\$ -	\$ 12,357	\$ 7
Production and intermediate term Loans to cooperatives	11,742	12,339	-	14,537	5
Processing and marketing	-	-	-	-	-
Farm-related business	694	729	-	751	6
Energy and water/waste disposal	-	-	-	-	-
Rural residential real estate	321	357	-	366	-
Lease receivables	-	-	-	-	-
Total	<u>\$ 24,679</u>	<u>\$ 25,678</u>	<u>\$ -</u>	<u>\$ 28,011</u>	<u>\$ 18</u>
Total impaired loans:					
Real estate mortgage	\$ 11,988	\$ 12,322	\$ 58	\$ 12,429	\$ 7
Production and intermediate term Loans to cooperatives	15,656	16,635	591	19,074	5
Processing and marketing	-	-	-	-	-
Farm-related business	694	729	-	751	6
Energy and water/waste disposal	-	-	-	-	-
Rural residential real estate	585	618	38	628	-
Lease receivables	-	-	-	-	-
Total	<u>\$ 28,923</u>	<u>\$ 30,304</u>	<u>\$ 687</u>	<u>\$ 32,882</u>	<u>\$ 18</u>

<sup>a</sup> Unpaid principal balance represents the recorded principal balance of the loan.

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. A summary of changes in the allowance for loan losses and period end recorded investment (including accrued interest) in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivable	Total
<b>Allowance for Credit Losses:</b>							
Balance at							
December 31, 2010	\$ 2,059	\$ 1,587	\$ 79	\$ -	\$ 56	\$ -	\$ 3,781
Charge-offs	(333)	(126)	(43)	-	(43)	-	(545)
Recoveries	3	153	-	-	13	-	169
Provision for loan losses	528	(418)	117	-	94	-	321
Balance at							
September 30, 2011	<u>\$ 2,257</u>	<u>\$ 1,196</u>	<u>\$ 153</u>	<u>\$ -</u>	<u>\$ 120</u>	<u>\$ -</u>	<u>\$ 3,726</u>
Ending Balance:							
individually evaluated for							
impairment	<u>\$ 25</u>	<u>\$ 65</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31</u>	<u>\$ -</u>	<u>\$ 121</u>
Ending Balance:							
collectively evaluated for							
impairment	<u>\$ 2,232</u>	<u>\$ 1,131</u>	<u>\$ 153</u>	<u>\$ -</u>	<u>\$ 89</u>	<u>\$ -</u>	<u>\$ 3,605</u>
<b>Recorded Investments in Loans Outstanding:</b>							
Ending Balance at							
September 30, 2011	<u>\$ 192,582</u>	<u>\$ 44,999</u>	<u>\$ 11,374</u>	<u>\$ 1,752</u>	<u>\$ 7,919</u>	<u>\$ 140</u>	<u>\$ 258,766</u>
Ending Balance for loans							
individually evaluated for							
impairment	<u>\$ 5,985</u>	<u>\$ 3,101</u>	<u>\$ 977</u>	<u>\$ -</u>	<u>\$ 132</u>	<u>\$ -</u>	<u>\$ 10,195</u>
Ending Balance for loans							
collectively evaluated for							
impairment	<u>\$ 186,597</u>	<u>\$ 41,898</u>	<u>\$ 10,397</u>	<u>\$ 1,752</u>	<u>\$ 7,787</u>	<u>\$ 140</u>	<u>\$ 248,571</u>

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at September 30, 2011.

#### NOTE 4: CAPITAL

The Association's Board of Directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the Board of Directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

#### NOTE 5: INCOME TAXES

AgriLand, Farm Credit Services and its subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the associations 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 earnings that will not be distributed as qualified patronage refunds. During 2010, the Association did not participate in a patronage

program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized.

The subsidiary, AgriLand, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971. The Association's adoption of FIN 48 has not created a liability for unrecognized tax benefits.

**NOTE 6: FAIR VALUE MEASUREMENTS:**

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 12 to the 2010 Annual Report to Stockholders for a more complete description.

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

<u>September 30, 2011</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Investments	\$ -	\$ -	\$ 11,311	\$ 11,311
Loans*	-	-	109	109
Other Property Owned	-	-	2,877	2,877
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,297</u>	<u>\$ 14,297</u>
<u>December 31, 2010</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Investments	\$ -	\$ -	\$ 12,449	\$ 12,449
Loans*	-	-	3,549	3,549
Other Property Owned	-	-	1,066	1,066
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,064</u>	<u>\$ 17,064</u>

\* Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance, "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

**Valuation Techniques**

As more fully discussed in Note 12 to the 2010 Annual Report to Stockholders, authoritative guidance 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. The following represent a brief summary of the valuation techniques used for the Bank and its related associations' assets and liabilities. For a more complete description, see Notes to the 2010 Annual Report to Stockholders.

*Investment Securities*

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services, pricing models that utilize observable inputs or discounted cash flows. Generally, these securities are classified as Level 2. This would include certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-backed securities and certain mortgage-backed securities, including those issued by Farmer Mac.

*Loans*

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. 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 results, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

*Other Property Owned*

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties.

**NOTE 7: EMPLOYEE BENEFIT PLANS**

The following table summarizes the components of the net periodic benefit costs as of March 31:

	September 30 2011	September 30 2010
Service cost	\$ 23	\$ 16
Interest cost	77	74
Amortization of:		
Unrecognized prior service costs	(93)	(95)
Unrecognized net (gain) loss	55	44
Net periodic benefit cost	\$ 62	\$ 39

The Association previously disclosed in its financial statements for the year ended 2010 that it expected to contribute \$677 to its defined pension plan in 2011. As of September 30, 2011, \$508 contributions have been made. The Association presently anticipates contributing an additional \$169 to fund its defined pension plan in 2011.

**NOTE 8: FINANCIAL INSTRUMENTS OF OFF-BALANCE-SHEET RISK**

The Association is a party to financial instruments with off-balance-sheet risk originating in the normal course of business to meet the financing needs of its customers. The Association’s financial instruments with off-balance-sheet risk are in the form of commitments to extend credit to borrowers.

The Association’s exposure to credit loss in the event of nonperformance by the borrowers for commitments to extend credit is represented by the contractual amount of these commitments. The Association uses the same credit policies in making these commitments as it does for loans that are represented on the balance sheet.

Financial instruments that contract amounts represent credit risk:  
 Commitments to extend credit: \$19,217

**NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES:**

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

**NOTE 10: SUBSEQUENT EVENTS**

The Association has evaluated subsequent events through November 10, 2011, which is the date the financial statements were available to be issued, and noted that there are no subsequent events to report.

## OFFICE LOCATIONS

<b>CORPORATE OFFICE</b> (903) 593-6609	3210 W.N.W. Loop 323 Tyler, Texas 75712
<b>TYLER BRANCH OFFICE</b> (903) 593-0151	6760 Old Jacksonville Hwy, Suite 105 Tyler, Texas 75703
<b>ATHENS BRANCH OFFICE</b> (903) 675-9388	520 East Tyler Athens, Texas 75751
<b>NACOGDOCHES BRANCH OFFICE</b> (936) 564-0448	2200 NW Stallings Drive Nacogdoches, Texas 75963
<b>SULPHUR SPRINGS BRANCH OFFICE</b> (903) 885-7608	1305 Shannon Road Sulphur Springs, Texas 75482
<b>BEAUMONT BRANCH OFFICE</b> (409) 861-1900	1630 North Major Dr., Suite A Beaumont, Texas 77713
<b>FAIRFIELD BRACH OFFICE</b> (254) 389-8738	314Hwy 84 Fairfield, Texas 75840
<b>PARIS BRANCH OFFICE</b> (903) 784-4383	3743 Lamar Avenue Paris, Texas 75460
<b>BONHAM BRANCH OFFICE</b> (903) 583-3217	112 E. Hwy 82 Bonham, Texas 75418
<b>GAINESVILLE BRANCH OFFICE</b> (940) 665-0715	206 S. Dixon Gainesville, Texas 76240
<b>CLARKSVILLE BRANCH OFFICE</b> (903) 427-5675	401 N. Locust Clarksville, Texas 75426
<b>NEW WAVERLY BRANCH OFFICE</b> (936) 344-9500	125 State Hwy 150 West, Suite B-1 New Waverly, Texas 77358

**FINANCIAL REPORT CERTIFICATION**

The financial statements of the AgriLand, Farm Credit Services are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles and appropriate in the circumstances, except as noted. Other financial information included in the quarterly report is consistent with that in the financial statements.

To meet its responsibility for reliable information, management depends on the AgriLand, FCS accounting and internal control systems that have been designed to provide reasonable, but not absolute assurance what assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, the Association is examined by the Farm Credit Administration and by an independent outside auditor.

The signatories have reviewed the September 30, 2011 Financial Report to Stockholders and certify that it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of the signatories' knowledge and belief. The consolidated financial statements, in the opinion of the Board of Directors and management, fairly present the financial condition of the Association, except as otherwise noted.



November 10, 2011

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Gregory T. Richbourg,  
Chairman, Board Audit Committee

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Date



November 10, 2011

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Roger Brist,  
Chief Executive Officer

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Date



November 10, 2011

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Joe Valladares,  
Chief Financial Officer

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Date