U.S. AgBank District

2011 ANNUAL REPORT

U.S. AGBANK DISTRICT

Board Members

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Front Row, Left to Right • Wayne Allen, Nevada City, CA • Robert Bray, Redvale, CO • Kenneth Shaw, Vice Chairman, Mountainair, NM • Donnell Spencer, Richfield, UT • Ronald J. Rahjes, Kensington, KS • David Vanni, Gilroy, CA • J. "Less" Guthrie, Porterville, CA • Wesley D. Brantley, Jr., Ada, OK

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EXECUTIVE OFFICERS

(As of December 31, 2011)

Darryl W. Rhodes, President & Chief Executive Officer

David D. Janish, Senior Vice President – Finance

James L. Grauerholz, Senior Vice President – Administration

Dennis E. Grizzell, Senior Vice President – Credit

Thomas R. Kruse, Senior Vice President – Internal Audit and Quality Assurance

Gregory E. Somerhalder, Senior Vice President – Risk Management

John W. Lann – Acting General Counsel

CORPORATE ADDRESS

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CoBank Website
www.cobank.com

Corporate Profile

On January 1, 2012, U.S. AgBank, FCB (AgBank) merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB (CoBank), another Farm Credit System Bank. The merged bank will continue to do business under the CoBank name and be headquartered outside Denver, Colorado. Robert B. Engel, CoBank's president and chief executive officer, is president and chief executive officer of the merged bank.

At December 31, 2011, the U.S. AgBank District (District) was made up of AgBank, 26 affiliated Associations (Associations), and AgVantis, Inc., which is primarily a technology service corporation owned by AgBank and 18 Associations. At year end, there were approximately 90 institutions that comprise the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The System is a government-sponsored enterprise (GSE) and its institutions are instrumentalities of the United States. The Farm Credit Administration is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

The System Banks jointly own the Federal Farm Credit Banks Funding Corporation which sells Systemwide Debt Securities in the nation's capital markets on behalf of the System Banks. Because the System issues large volumes of securities with GSE status, the System has generally benefited from a dependable and competitively priced source of funding. Systemwide Debt Securities are the general unsecured joint and several obligations of the System Banks. Systemwide Debt Securities are not obligations of, and are not guaranteed by, the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as a result, the capital of the Associations may not be directly available to satisfy any principal or interest payments on Systemwide Debt Securities.

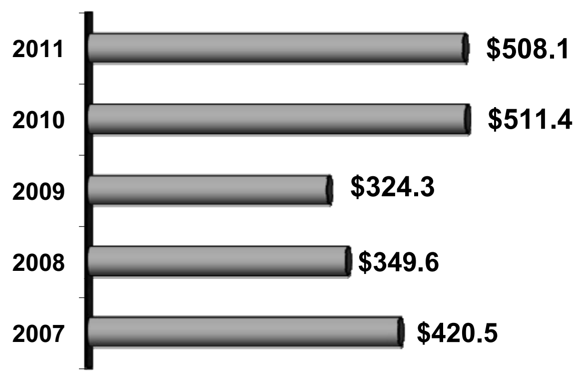
As a cooperative, AgBank was owned by its 26 customer Associations. The Associations benefited from their ownership of AgBank in two important ways. Through the delivery of funding to all Associations, AgBank achieved economies of scale that could not be achieved by the Associations individually. In addition, AgBank shared its profits with the Associations through patronage refunds. The patronage refunds paid to Associations reduced the cost of borrowing and benefited the farmer and rancher customers of the Associations. AgBank met the funding needs of Associations with products and pricing methodologies that provided "match funding" of loans in the Association portfolios. The wholesale funding AgBank provided typically matched the terms and embedded options of the retail loans held by Associations. Therefore, the main sources of interest rate risk were incurred and managed at AgBank, and Associations were substantially protected from interest rate risk.

The District's chartered territory was comprised of Arizona, California, Colorado, Hawaii, Kansas, Nevada, New Mexico, Oklahoma, Utah, southeastern Idaho, and the far western edge of Wyoming. AgBank provided loan funds and other services to Agricultural Credit Associations (ACAs), Federal Land Credit Associations (FLCAs), and other financing institutions that serve these eleven states. Each Association offers a wide range of loan products and financial services to farmers and ranchers in its chartered territory.

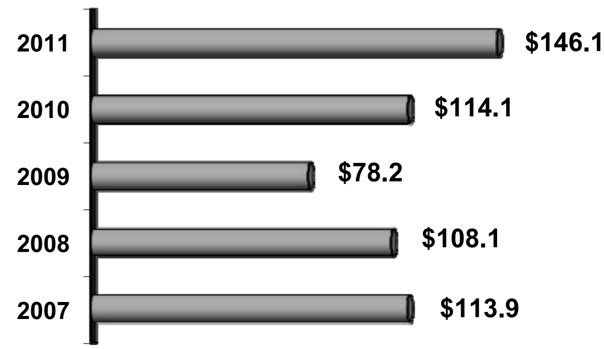
This annual report does not constitute an offer to sell or a solicitation of an offer to buy Systemwide Debt Securities. Systemwide Debt Securities are offered by the Federal Farm Credit Banks Funding Corporation on behalf of the System Banks, pursuant to offering circulars for each type of debt offering.

Financial Performance Highlights

Net Income
$ in millions

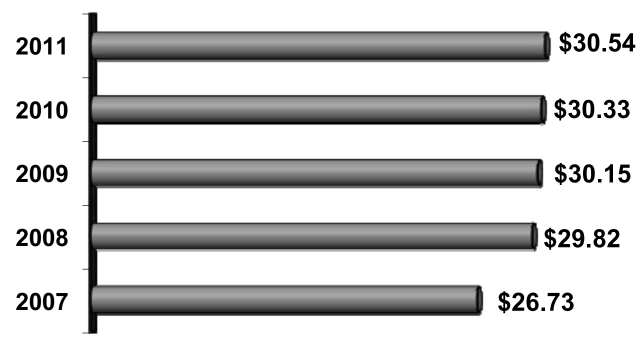


Patronage Refunds
$ in millions

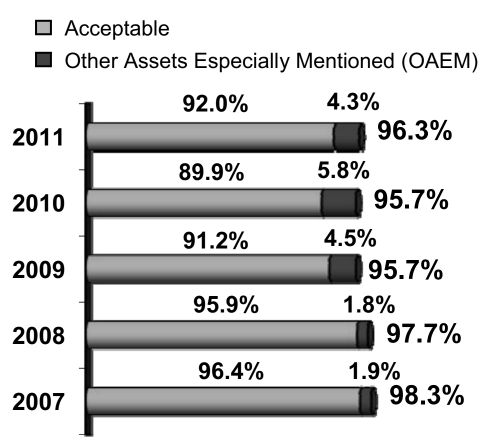


Shareholder's Equity and Allowance for Loan Losses
$ in billions

Total Assets
$ in billions

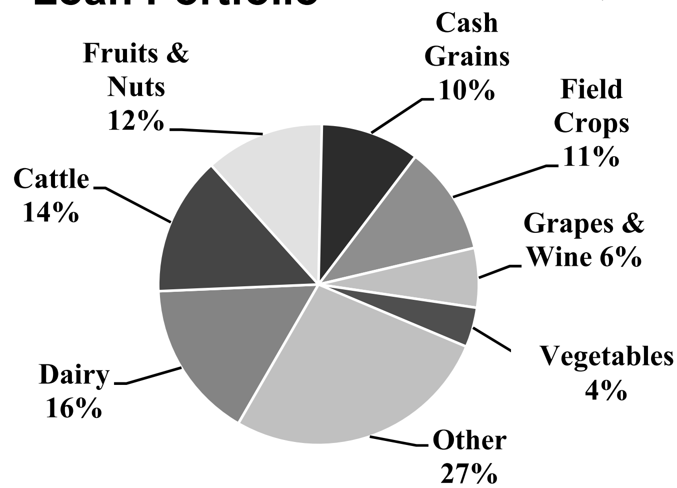


Credit Quality



Loan Portfolio

As of December 31, 2011



Five-Year Summary of Selected Combined Financial Data

U.S. AgBank District
(Dollars in thousands)

	December 31				
	2011	2010	2009	2008	2007
Combined Statement of Condition Data					
Loans	**$ 24,344,879**	$ 24,307,238	$ 23,945,657	$ 23,125,415	$ 19,755,680
Less: Allowance for loan losses	**111,436**	118,557	112,242	86,655	66,164
Net loans	**24,233,443**	24,188,681	23,833,415	23,038,760	19,689,516
Cash and federal funds	**353,287**	330,341	255,927	277,881	274,540
Investment securities	**5,207,512**	5,095,139	5,358,703	5,841,494	6,152,316
Other property owned	**88,642**	115,693	57,686	3,870	3,974
Other	**655,837**	603,244	641,583	654,176	608,187
Total assets	**$ 30,538,721**	$ 30,333,098	$ 30,147,314	$ 29,816,181	$ 26,728,533
Obligations with maturities of one year or less	**$ 9,481,655**	$ 9,699,031	$ 8,859,031	$ 9,430,200	$ 9,008,995
Obligations with maturities greater than one year	**15,654,219**	15,465,426	16,673,695	15,899,796	13,274,953
Total liabilities	**25,135,874**	25,164,457	25,532,726	25,329,996	22,283,948
Stock and participation certificates	**38,434**	38,911	39,237	39,391	48,326
Preferred stock	**543,388**	543,192	486,360	471,293	425,054
Retained earnings	**5,060,129**	4,717,655	4,339,177	4,316,386	4,098,753
Additional paid-in capital	**206,949**	206,226	206,226	–	–
Accumulated other comprehensive income/(loss), net of tax	**(446,053)**	(337,343)	(456,412)	(340,885)	(127,548)
Total shareholders' equity	**5,402,847**	5,168,641	4,614,588	4,486,185	4,444,585
Total liabilities and shareholders' equity	**$ 30,538,721**	$ 30,333,098	$ 30,147,314	$ 29,816,181	$ 26,728,533

	For the Year Ended December 31				
	2011	2010	2009	2008	2007
Combined Statement of Income Data					
Net interest income	**$ 816,885**	$ 800,353	$ 724,179	$ 638,881	$ 664,833
Provision for loan losses	**(23,243)**	(51,254)	(86,869)	(22,601)	(3,583)
Noninterest expenses, net	**(254,038)**	(218,091)	(277,484)	(254,481)	(237,199)
Net impairment loss recognized	**(23,311)**	(16,057)	(36,415)	(16,483)	–
(Provision for)/Benefit from income taxes	**(8,149)**	(3,508)	916	4,244	(3,552)
Net income	**$ 508,144**	$ 511,443	$ 324,327	$ 349,560	$ 420,499
Combined Key Financial Ratios					
Return on average assets	**1.71%**	1.72%	1.08%	1.24%	1.69%
Return on average total shareholders' equity	**9.37%**	10.18%	6.99%	7.56%	9.51%
Net interest income as a percentage of average earning assets	**2.83%**	2.78%	2.49%	2.32%	2.75%
Net charge offs as a percentage of average net loans	**0.13%**	0.19%	0.22%	0.01%	0.01%
Shareholders' equity as a percentage of assets	**17.69%**	17.04%	15.31%	15.05%	16.63%
Debt to shareholders' equity	**4.65:1**	4.87:1	5.53:1	5.65:1	5.01:1
Allowance for loan losses as a percentage of gross loans	**0.46%**	0.49%	0.47%	0.37%	0.33%
Operating expense as a percentage of net interest income	**40.22%**	38.77%	45.82%	48.96%	42.36%
Operating expense as a percentage of average loans	**1.38%**	1.31%	1.42%	1.47%	1.54%
Operating expense as a percentage of average assets	**1.11%**	1.05%	1.11%	1.11%	1.13%
Permanent capital ratio (Bank only)	**22.27%**	20.23%	17.20%	18.94%	20.68%
Total surplus ratio (Bank only)	**17.62%**	16.02%	13.37%	15.92%	17.52%
Core surplus ratio (Bank only)	**13.93%**	12.34%	9.66%	10.97%	14.17%
Net collateral ratio (Bank only)	**105.15%**	105.61%	105.24%	104.90%	105.03%
Net Income Distribution					
Patronage refunds to borrowers	**$ 146,099**	$ 114,068	$ 78,240	$ 108,122	$ 113,907
Dividends	**$ 18,848**	$ 18,897	$ 17,830	$ 21,076	$ 21,782

MANAGEMENT'S DISCUSSION AND ANALYSIS

U.S. AgBank District
(Dollars in thousands, except as noted)

INTRODUCTION/ORGANIZATION

The following discussion summarizes the combined financial position and results of operations of U.S. AgBank, FCB (AgBank), the affiliated Associations and AgVantis, Inc. (AgVantis) for the year ended December 31, 2011. Comparisons with prior years are included. The affiliated Agricultural Credit Associations (ACAs), Federal Land Credit Associations (FLCAs), and Production Credit Associations (PCAs) are collectively known as "Associations," and AgBank, the Associations and AgVantis are collectively referred to as the "District."

We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact the financial condition and results of operations of the District. You should read these comments along with the accompanying financial statements, notes and other sections of this report. The Management's Discussion and Analysis includes the following sections:

- Merger with CoBank, ACB
- Basis of Presentation
- District Overview
- Results of Operations
- Agricultural Overview
- Loan Portfolio
- Credit Risk Management
- Liquidity and Investments
- Capital Resources
- Interest Rate Risk Management
- Other Risks
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

MERGER WITH COBANK, ACB

Effective January 1, 2012, AgBank merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB (CoBank), one of the other Banks in the System. In December 2010, each Board of Directors unanimously approved a Letter of Intent to merge. In March 2011, following unanimous votes by the boards of both banks, a merger application was submitted to the Farm Credit Administration (FCA), our regulator. In June 2011, the FCA granted preliminary approval of the merger, subject to certain conditions. In September 2011, AgBank and CoBank announced that their voting shareholders approved the proposed plan of merger between the two banks. Final approval from the FCA was received in December 2011. The merged bank will serve as a wholesale provider of financing to Farm Credit Associations that provide credit and financial services to more than 70,000 farmers, ranchers, and other rural borrowers in 23 states. It will also serve as a direct lender to agribusinesses and rural electric, water and communications service providers throughout the country. The merged bank will continue to do business under the CoBank name and be headquartered outside Denver, Colorado. Robert B. Engel, CoBank's president and chief executive officer, is president and chief executive of the merged bank. CoBank had total assets of $63.29 billion and capital of $4.90 billion at December 31, 2011. For purposes of this discussion, references to "the Bank" will be used for AgBank from an historic perspective or CoBank from a current or future perspective.

BASIS OF PRESENTATION

The combined financial statements and related financial information in this Annual Report include the accounts of AgBank, the Associations and AgVantis. The financial statements are presented on a combined basis due to the financial and operational interdependence of the District entities. This interdependence results, in part, from AgBank serving as a financial intermediary between the capital markets and the retail lending activities of the Associations. As a result, the loans made by Associations to their borrowers were substantially funded by AgBank with the issuance of Systemwide Debt Securities. Although only the

System Banks are jointly and severally liable for the repayment of Systemwide Debt Securities, the repayment is dependent upon the ability of the borrowers to repay their loans from the Associations and the Associations to repay their loans from the Bank. Under this presentation, the accounts of the District entities are combined, with all intra-District transactions and balances eliminated in combination. Certain amounts in prior years' financial statements have been reclassified to conform to current financial statement presentation.

DISTRICT OVERVIEW

There were 26 Associations in the District as of December 31, 2011. Twenty-four Associations are ACAs and two are FLCAs. Each Association in the District has a chartered territory. Each ACA has an FLCA subsidiary and a PCA subsidiary. FLCAs and FLCA subsidiaries of ACAs make mortgage loans to members. Funds for these loans are borrowed from AgBank. AgBank also loans funds directly to ACAs, PCA subsidiaries and other financing institutions (OFIs) which, in turn, provide operating and intermediate-term credit to farmers and ranchers. The Associations serve territories in Arizona, California, Colorado, Hawaii, Kansas, Nevada, New Mexico, Oklahoma, Utah, southeastern Idaho and the far western edge of Wyoming. At December 31, AgBank loans to Associations in total were $18.94 billion for 2011, $19.27 billion for 2010 and $19.34 billion for 2009. Loans to the individual Associations have been eliminated in combination.

Each Association serves a unique marketplace and must address its own competitive lending environment. The degree of competition varies, depending on the appetite for agricultural loans by local and regional banks, large commercial banks, and insurance companies in any given area. In most areas, we have been successful in gaining market share due to our loan products, image, and reputation in the agricultural community. We offer a variety of loan products, provide high quality service, offer attractive interest rates, and most Associations pay patronage refunds. The payment of patronage refunds to borrowers is a sharing of operating profits. This is unique in the marketplace due to our cooperative structure and is a significant financial benefit to our borrowers.

On January 1, 2012, Farm Credit of the Mountain Plains, ACA headquartered in Greeley, Colorado merged into American AgCredit, ACA headquartered in Santa Rosa, California. The headquarters will remain in Santa Rosa, California. Effective after the close of business on November 30, 2009, Farm Credit of the Heartland, ACA headquartered in Wichita, Kansas merged into American AgCredit, ACA. For more information on these mergers, refer to Note 1D of the Notes to the Combined Financial Statements. As of December 31, 2011, 2010, and 2009, there were 26 Associations in the District.

AgVantis is a service corporation owned by the Bank and 18 Associations at December 31, 2011. AgVantis provides technology and other operational services to certain Associations and the Bank. Financial activity between AgVantis and AgBank or AgVantis and Associations has been eliminated in combination.

RESULTS OF OPERATIONS

Earnings Summary

In 2011, we recorded net income of $508.1 million compared with $511.4 million for 2010 and $324.3 million for 2009. The decrease in 2011 is due to an increase in noninterest expense and a decrease in noninterest income, partially offset by an increase in net interest income and a decrease in provision for loan losses. The increase in 2010 was due to an increase in net interest income and noninterest income and a decrease in provision for loan losses and noninterest expense. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2011 versus 2010**	2010 versus 2009
Net income, prior year	**$ 511,443**	$ 324,327
Increase/(Decrease) from changes in:		
Net interest income	**16,532**	76,174
Provision for loan losses	**28,011**	35,615
Noninterest income	**(16,995)**	36,915
Noninterest expense	**(26,206)**	42,836
Provision for income taxes	**(4,641)**	(4,424)
Total (decrease)/increase in net income	**(3,299)**	187,116
Net income, current year	**$ 508,144**	$ 511,443

Return on average assets decreased to 1.71% from 1.72% in 2010, and return on average shareholders' equity decreased to 9.37% from 10.18% in 2010.

Net Interest Income

Net interest income for 2011 was $816.9 million compared with $800.4 million for 2010 and $724.2 million for 2009. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to an increase in interest rate spread as a result of interest savings from calling and reissuing debt in this extended period of low interest rates and to a lesser extent higher average loan volume period over period. The effects of changes in average volumes and interest rates on net interest income for these periods are reflected in the following table.

	2011 vs. 2010 Increase/(Decrease) due to			2010 vs. 2009 Increase/(Decrease) due to		
(dollars in millions)	**Rate**	**Volume**	**Total**	Rate	Volume	Total
Interest income:						
Loans	**$ (47.9)**	**$ 2.9**	**$ (45.0)**	$ (10.0)	$ 14.2	$ 4.2
Investments	**(26.8)**	**(0.4)**	**(27.2)**	(66.1)	(9.8)	(75.9)
Total interest income	**(74.7)**	**2.5**	**(72.2)**	(76.1)	4.4	(71.7)
Interest expense	**83.6**	**5.1**	**88.7**	137.0	10.9	147.9
Change in net interest income	**$ 8.9**	**$ 7.6**	**$ 16.5**	$ 60.9	$ 15.3	$ 76.2

Components of net interest income for the past three years are presented in the following table. Interest income, interest expense, and interest rates include the effect of related derivative financial instruments used for hedging and/or risk management.

	2011			2010			2009		
(dollars in millions)	**Income/ Expense**	**Average Balance**	**Rate**	Income/ Expense	Average Balance	Rate	Income/ Expense	Average Balance	Rate
Interest earning assets									
Loans by type									
Real estate mortgage	**$ 742.3**	**$ 14,774.5**	**5.02%**	$ 765.5	$ 14,586.0	5.25%	$ 756.4	$ 13,890.2	5.45%
Production and intermediate-term	**216.6**	**5,059.9**	**4.28**	239.9	5,411.6	4.43	226.7	5,469.6	4.14
Agribusiness	**125.3**	**3,031.3**	**4.13**	126.3	2,816.7	4.48	138.5	3,152.8	4.39
Communication	**4.2**	**110.1**	**3.85**	2.9	74.2	3.96	2.8	88.7	3.12
Energy	**9.9**	**220.7**	**4.47**	10.9	262.4	4.15	9.5	225.3	4.21
Water and waste disposal	**1.1**	**19.0**	**5.66**	1.1	18.0	5.85	1.0	18.0	5.85
Rural residential real estate	**3.5**	**61.4**	**5.73**	3.7	59.5	6.20	3.7	58.4	6.33
Lease receivables	**8.5**	**148.7**	**5.72**	8.1	144.1	5.65	8.7	151.8	5.76
International	**2.7**	**74.5**	**3.65**	1.9	40.9	4.61	1.0	19.6	5.20
OFI (other financing institutions)	**0.2**	**19.1**	**0.89**	0.2	21.9	1.02	0.2	16.2	1.23
Mission related	**0.2**	**4.0**	**6.10**	0.2	3.8	6.30	0.1	3.9	2.84
Nonaccrual	**5.8**	**277.1**	**2.09**	4.6	299.1	1.53	12.5	354.4	3.54
Total loans	**1,120.3**	**23,800.3**	**4.71**	1,165.3	23,738.2	4.91	1,161.1	23,448.9	4.95
Investments	**65.0**	**5,045.1**	**1.29**	92.2	5,079.3	1.82	168.1	5,620.1	2.99
Total interest earning assets	**1,185.3**	**28,845.4**	**4.11**	1,257.5	28,817.5	4.36	1,329.2	29,069.0	4.57
Interest bearing liabilities	**368.4**	**23,959.0**	**1.54**	457.1	24,295.5	1.88	605.0	24,875.7	2.43
Net interest income	**$ 816.9**			$ 800.4			$ 724.2		
Interest rate spread			**2.57%**			2.48%			2.14%
Impact of equity financing		**$ 4,886.4**	**0.26%**		$ 4,522.0	0.30%		$ 4,193.3	0.35%
Net interest margin			**2.83%**			2.78%			2.49%

The 2011 interest rate spread between interest earning assets and interest bearing liabilities increased 9 basis points to 2.57%, compared with 2.48% in 2010. The increase in interest rate spread resulted from a 34 basis point decrease in interest expense offset by a 25 basis point decrease in interest income. Most significantly impacted was interest expense which decreased primarily due to called term debt being replaced at a lower cost, including the issuance of shorter term floating rate debt. In recent years, we have been able to lower our cost of funds faster than our loans have repriced. Offsetting the increase in spread was a reduction in discount accretion recognized in interest income on agency investments as paydowns on those investments slowed significantly.

Net interest margin (net interest income to average earning assets) increased 5 basis points to 2.83% compared with 2.78% in 2010. The net interest margin increase was due to the 9 basis point increase in interest rate spread offset by a 4 basis point decrease in the impact of equity financing. The effect of equity financing remained low at 26 basis points in 2011. Income earned on interest earning assets funded by non-interest bearing sources (primarily capital) decreased as yields continued to decline in this low interest rate environment.

Provision for Loan Losses

The Bank and Association managements regularly monitor their respective loan portfolios to determine if an increase or a decrease to the allowance for loan losses is warranted based on each entity's assessment of the probable losses in its loan portfolio. In aggregate, we recorded net provisions for loan losses of $23.2 million for the year ended December 31, 2011, compared with $51.3 million in 2010 and $86.9 million in 2009. Provisions for loan losses in all three years were primarily due to credit deterioration in those agricultural sectors that continue to be impacted by volatility in commodity prices, such as dairy and fed cattle, as well as those sectors impacted by the overall downturn in the general economy, including the timber, wine and grapes, and nursery industries.

Noninterest Income

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

(dollars in thousands)	**2011**	2010	2009	**Percent Increase/(Decrease) 2011/2010**	**Percent Increase/(Decrease)** 2010/2009
Loan and prepayment fee income	**$ 37,885**	$ 33,523	$ 30,229	**13.0%**	10.9%
Fees for financially related services	**10,211**	10,195	12,412	**0.2%**	(17.9%)
Mineral income	**18,411**	11,630	6,683	**58.3%**	74.0%
Insurance fund distribution	**-**	29,783	–	**(100.0%)**	100.0%
Net gains on other assets	**5,341**	4,934	694	**8.2%**	611.0%
Other noninterest income	**19,582**	18,360	21,492	**6.7%**	(14.6%)
Noninterest income	**$ 91,430**	$ 108,425	$ 71,510	**(15.7%)**	51.6%

For the year ended December 31, 2011, we recorded noninterest income of $91.4 million compared with $108.4 million in 2010 and $71.5 million in 2009. The overall net decrease in 2011 of $17.0 million was due to 2010 distributions of $29.8 million from the Farm Credit System Insurance Corporation (FCSIC) representing our District's portion of the excess amount in the System's insurance fund above the 2% secure base amount. No distribution was made by FCSIC in 2011. Refer to Note 1C for further information regarding FCSIC. Loan and prepayment fee income increased $4.4 million generally due to borrowers refinancing loans as a result of responding to low interest rates in 2011.

We own mineral rights in the states of Arizona, California, Colorado, Kansas, Nevada, New Mexico, Oklahoma and Utah. These mineral rights are held at an historic cost of nominal value. Mineral income is primarily generated from royalties on natural gas and crude oil production, leasing bonuses and rental payments. This income may vary from year to year based on fluctuations in energy demand, prices and production. In 2011, mineral income increased $6.8 million mostly due to new leasing bonuses and higher well head prices for crude oil. Approximately 61% of our mineral income in 2011 was from natural gas.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is summarized below:

(dollars in thousands)	**2011**	2010	2009	**Percent Increase/(Decrease) 2011/2010**	**Percent Increase/(Decrease)** 2010/2009
Salaries & employee benefits	**$ 204,428**	$ 200,383	$ 191,181	**2.0%**	4.8%
Occupancy & equipment	**19,878**	18,644	19,576	**6.6%**	(4.8%)
Insurance fund premium	**12,674**	11,056	46,915	**14.6%**	(76.4%)
Supervisory expense	**10,382**	9,820	8,733	**5.7%**	12.4%
Other operating expense	**74,223**	69,213	65,007	**7.2%**	6.5%
Merger-related costs	**6,953**	1,193	422	**482.8%**	182.7%
Operating expense	**$ 328,538**	$ 310,309	$ 331,834	**5.9%**	(6.5%)
Losses on other property owned	**12,819**	5,429	6,673	**136.1%**	(18.6%)
Loss due to investment impairment	**23,311**	16,057	36,415	**45.2%**	(55.9%)
Loss on sale of investment securities	**261**	666	2,600	**(60.8%)**	(74.4%)
Gain on early extinguishment of debt	**(102)**	–	–	**(100.0%)**	–
Concession expense write-off on called debt	**3,952**	10,112	7,887	**(60.9%)**	28.2%
Noninterest expense	**$ 368,779**	$ 342,573	$ 385,409	**7.6%**	(11.1%)

Noninterest expense for the year ended December 31, 2011, increased $26.2 million, or 7.6%, to $368.8 million, compared with the same period in 2010. Salaries and employee benefits expense increased $4.0 million, or 2.0%. In 2011, salaries increased $5.6 million due to additional staff at certain Associations, moderate increases for salary adjustments, and increased incentive payments. As of December 31, 2011, our workforce had increased to approximately 1,654 employees from approximately 1,620 employees at December 31, 2010. Offsetting the increase in salaries, employee benefits decreased $1.6 million primarily due to decreased pension expense recognized for a defined benefit plan.

Insurance fund premiums paid to the FCSIC in 2011 increased $1.6 million, compared with 2010, due to a change in the premium rate to 6 basis points on System debt in 2011 from 5 basis points in 2010. Refer to Note 1C of the Notes to Financial Statements for further information on FCSIC.

During 2011, merger-related expenses of $4.4 million were recorded for incentives, professional fees, and attorney fees related to the merger between AgBank and CoBank and $2.6 million due to the merger of two District Associations. During 2010, merger-related expenses were a result of preliminary work associated with the AgBank-CoBank merger and during 2009 merger-related costs were recorded as the result of a merger of two Associations in the District.

Other expenses increased $5.0 million related to increases in information technology, travel, member relations, and training costs.

Losses on other property owned increased $7.4 million to $12.8 million during 2011 primarily at two Associations due to valuation losses on acquired properties, losses on the sales of properties and additional operating expenses as a result of the substantial increase in acquired properties during 2010, which were still held in 2011. The majority of these properties were related to cattle, dairy, nurseries, and tree nuts. During 2010, we recorded losses of $5.4 million on other property owned. The losses were primarily recorded at three Associations and were the result of additional valuation losses and operating expenses on acquired properties. During 2009, we recorded losses on other property owned of $6.7 million primarily as the result of a loss on the sale of an ethanol plant of $2.4 million and a write-down of $3.0 million in fair value on a cattle ranch.

Under accounting principles generally accepted in the United States of America (GAAP), we recognize the amount of the other-than-temporary impairment related to a security's credit loss in earnings and the non-credit-related impairment is recognized in other comprehensive loss. During 2011, losses of $23.3 million were recognized for the credit-related component of impairments on thirteen securities due to continued stress in the housing market. During 2010, losses of $16.1 million were recognized for the credit-related component of impairments on ten securities. Investment security impairments recorded in 2009 were $36.4 million on eleven securities. These other-than-temporary impairments are discussed in more detail in the Liquidity and Investments section.

In 2011, we sold one non-agency security for a loss of $260 thousand and one asset-backed security for a loss of $1 thousand. During 2010, we sold an impaired non-agency security for a loss of $1.7 million and two asset-backed securities, one of which was impaired, for a loss of $1.4 million, offset by the sale of an agency security at a gain of $2.4 million for a combined net loss of $666 thousand. During 2009, we realized a loss of $2.6 million on the sale of three asset-backed securities. We sold these securities as part of the liquidity strategy for our investment portfolio.

During 2011, we recognized accelerated debt concession expense of $4.0 million on $2.76 billion of debt that was called and refinanced at lower rates compared with $10.1 million of debt concession expense on $6.94 billion of debt called in 2010. Calling and replacing debt results in lower interest expense in the future.

Provision for/Benefit from Income Taxes

We recorded $8.1 million in provision for income taxes in 2011 compared with $3.5 million in 2010 and a $916 thousand benefit from income taxes in 2009. The increase in 2011 was primarily due to a decrease in deferred tax assets related to the write-off of a net operating loss and the allowance for loan loss activity, and an increase in income at taxable entities. The change in 2010 income tax from 2009 was primarily due to increased taxable income at several Associations related to increased earnings and less patronage paid to borrowers. Most of the District Associations operate as Subchapter T cooperatives for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 9 for additional details.

AGRICULTURAL OVERVIEW

Our financial condition can be directly impacted by factors affecting the agricultural, rural and general economies. These factors impact the ability of farmers and ranchers to repay loans. Factors include but are not limited to the following:

- commodity prices;
- weather, disease, or other adverse climatic or biological conditions that impact the production of agricultural products;
- availability and cost of agricultural workers;
- changes in fuel and fertilizer costs, rent and other production expenses;

- water availability, cost and environmental impacts;
- significant changes in land values;
- the relationship of demand relative to supply of agricultural commodities produced including access to domestic and foreign markets;
- the demand for agricultural commodities for alternative uses including ethanol and other biofuel production and the resulting impact on commodity prices;
- the impact of safety nets, including government payments and multi-peril crop insurance;
- changes in the United States government support of the agricultural sector, including expenditures on agricultural and conservation programs and biofuels;
- major international events, changes in foreign economies, and trade barriers which affect the demand for agricultural products sold or the cost of production as well as changes in the relative value of the U.S. dollar;
- access to technology and the successful implementation of production technologies; and,
- changes in the general economy that can affect interest rates and/or availability of off-farm employment for some farm households.

For many years, agriculture experienced a sustained period of favorable economic conditions due to stronger commodity prices, rising land values, and, to a lesser extent, government support and multi-peril crop insurance programs. Because of this overall prosperity and continued robust agricultural environment, our financial results have been positively influenced. Production agriculture, however, is a cyclical business that is heavily influenced by commodity prices. In 2009 and 2010, certain agricultural sectors experienced significant financial stress, which negatively impacted credit quality measures. Adversely affected have been dairy, fed cattle, timber, and nurseries, while grain producers have been positively affected. Overall conditions were satisfactory in 2011, but dairy continues to reflect some stress, timber remains hampered by the prolonged problems in the housing markets, and high feed costs are stressing margins in the meat protein complexes, especially poultry. The negative impact from these less favorable conditions is somewhat lessened by our geographic and commodity diversification across the District and the generally strong financial condition of our agricultural borrowers. Some borrowers who are reliant on off-farm income sources have also been adversely impacted due to the weakened general economy.

District Agricultural Overview

Agriculture in the District is very diverse. California, with over 50% of our loan volume, is significantly different from the other areas of the District and produces a vast variety of agricultural products. Of all the agricultural products produced in the United States, California produces most of them with only a few exceptions. Livestock production occurs throughout the District, but is predominant in the central part of the District. The eastern portion of the District is predominantly in small grains and livestock production.

In the western part of the District, overall conditions remain satisfactory. While certain sectors continue to reflect some stress, many others are experiencing favorable prices and modest returns. Conditions have stabilized somewhat for the timber industry, but remain weak with recovery hampered by the prolonged problems in the residential real estate markets. The grape and wine industry also continues to be impacted by the weak economy, but sales have increased and supply/demand for several varieties are now at or near balanced positions, which has resulted in some strengthening of prices and new contract offers to growers. Demand for lower priced grapes, and grapes made to raisins, has remained steady to higher. The 2011 grape crop was down from last year's crop and was impacted by untimely rains during harvest. Nut crops continue to be reasonably profitable. Producers have had record almond and walnut crops coupled with high prices. Prices for hay and other feed-related crops have remained strong, and cotton prices are above historical levels. Dry conditions during November and December 2011 have heightened concerns for 2012 moisture/snowpack levels in the Sierras, a major source of irrigation water throughout the year.

In the inter-mountain region, the agricultural economy remains strong. Cow/calf and stocker cattle operations continued to generate solid profits with record high prices received for stocker cattle. Fed cattle prices were steady through most of the fourth quarter of 2011 with mixed profitability reported due to increased feed costs. Hay prices have remained strong and resulted in substantial profits for hay producers. Most of this region experienced below normal moisture conditions during the latter part of 2011 with minimal snowpack in the mountains.

In the plains region, agriculture is generally satisfactory; however, feed costs for the meat protein sector continue to pressure profitability. Grain producers experienced upward movement in the grain markets throughout most of 2011 and continued to be afforded the opportunity to sell grain inventories at profitable levels. The drought conditions that were prevalent throughout much of this region created some liquidations of cowherds and will impact cattle inventories for some time into the future. Moisture conditions improved substantially in the fourth quarter and coupled with moderate temperatures have resulted in excellent growing conditions for winter wheat in the southern plains region. This has allowed many producers to utilize wheat pasture in their livestock operations and reduce feed costs.

Most dairy producers throughout the District have generally operated on a profitable basis during 2011. High feed costs continue to challenge the industry, but stronger milk prices have more than offset the higher input costs in many cases, particularly for those operators that grow a portion of their feed requirements.

Agricultural real estate values in the District are generally stable with increases reflected in crop and ranch land; however, there were fewer sales taking place in 2011. Cash continues to be a significant component of the real estate transactions that are occurring.

LOAN PORTFOLIO

Total loan volume was $24.34 billion at December 31, 2011, an increase of $37.7 million, or 0.2%, over December 2010, and a $399.2 million, or 1.7%, increase over December 31, 2009. Loan growth flattened during 2011, partially due to the strong financial conditions of agriculture producers which decreased demand for credit. The types of loans outstanding at December 31 are reflected in the following table. AgBank loans to District Associations have been eliminated in the combined financial statements.

(dollars in millions)	**2011**		2010		2009	
Type of Loan	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Real estate mortgage loans	**$ 15,207.4**	**62.5%**	$ 14,985.7	61.7%	$ 14,646.1	61.2%
Production and intermediate-term loans	**5,488.2**	**22.5**	5,714.9	23.5	5,835.3	24.4
Agribusiness loans to:						
Cooperatives	**402.5**	**1.7**	461.3	1.9	309.3	1.3
Processing and marketing operations	**2,034.5**	**8.4**	1,974.4	8.1	2,022.3	8.4
Farm related businesses	**517.6**	**2.1**	511.7	2.1	511.7	2.1
Communication loans	**144.0**	**0.6**	100.4	0.4	68.5	0.3
Energy loans	**212.2**	**0.9**	245.2	1.0	257.2	1.1
Water and waste disposal loans	**19.8**	**0.1**	18.0	0.1	18.0	0.1
International	**75.5**	**0.3**	76.1	0.3	66.3	0.3
Rural residential real estate loans	**61.4**	**0.2**	62.8	0.3	57.8	0.2
Lease receivable loans	**151.5**	**0.6**	120.5	0.5	129.4	0.5
Mission-related loans	**8.3**	–	3.7	–	3.8	–
OFI loans	**22.0**	**0.1**	32.5	0.1	20.0	0.1
Total	**$ 24,344.9**	**100.0%**	$ 24,307.2	100.0%	$ 23,945.7	100.0%

Real estate mortgage loan volume increased 1.5% to $15.21 billion, compared with $14.99 billion at year-end 2010. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under most Associations' current underwriting standards, an Association loans less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loan volume decreased 4.0% to $5.49 billion, compared with 2010 loan volume of $5.71 billion. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

As a District, we continued to be a significant net purchaser of loan volume from non-System institutions in 2011. Through transactions with non-System institutions, we have purchased loan volume of $642.8 million and sold loan volume of $68.8 million as of December 31, 2011. As of year-end 2010, we had purchased loan volume of $770.0 million and sold loan volume of $91.2 million. The trend for financing large agribusiness companies has been to utilize multi-lender transactions. The Bank provided funding to Associations for these various large and complex financing arrangements. In addition, the Bank purchases interests in loans from Associations, commercial banks and other Farm Credit institutions in loan transactions through its correspondent lending business line.

Loan volume in AgBank's correspondent lending portfolio is included throughout the previous table. This portfolio decreased 22.4% to $709.4 million, compared with $914.3 million at December 31, 2010. The decrease was due to lower demand from certain borrowers and loans that paid off. Volume is comprised of participations purchased and other multi-lender transactions primarily in large Energy, Agribusiness, and Production and intermediate-term loans with lead lenders who demonstrate high quality servicing and credit administration practices.

At December 31, 2011, approximately 50% of the loans in our portfolios are variable rate loans and 48% are fixed rate loans. Adjustable rate loans comprise 2%. The following table indicates the type of variable and fixed rate loans in the portfolio. While administered variable rate loans are not tied to an external index, the Prime, LIBOR and adjustable rate loans are indexed to an external rate.

	2011	2010	2009
Variable rate loans			
Administered variable	**47%**	47%	42%
Variable indexed to LIBOR	**2%**	2%	2%
Variable indexed to Prime	**1%**	2%	7%
Fixed rate loans			
Fixed rate to maturity	**24%**	23%	21%
Fixed rate to conversion	**24%**	24%	25%
Adjustable rate loans	**2%**	2%	3%
Total	**100%**	100%	100%

Portfolio Diversification

Our District loan portfolio is diversified by the variety of commodities financed and the large and diverse geographic area served. However, due to the nature of agriculture, territory structure, and the cooperative nature of the System, some geographic and commodity concentrations do exist in the District.

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically includes more than one commodity. There are over 400 commodities produced in our District, although many are less than 1% of our portfolio. Our largest commodity concentration is in dairy loans, which are geographically dispersed across 24 states, with the heaviest concentration in California. Our second largest commodity, cattle, has further industry segmentation including feedlots, cow/calf and stocker cattle operations. In each of the other concentrations above 3.5%, there is further commodity diversification or industry segmentation within the primary Standard Industrial Code (SIC) category. Some additional diversification is also achieved from the loans to rural home owners and part-time farmers, who typically derive most of their earnings from non-agricultural sources, are less subject to agriculture cycles and are likely to be more affected by the current weaknesses in the general economy. Loans to rural home owners are segregated in the following table as their own SIC category. Loans to part-time farmers are included throughout the commodities produced.

SIC Category	December 31 2011	2010	2009
Dairy farms	**16.10%**	16.46%	17.04%
Cattle	**14.02**	14.20	14.23
Tree nuts	**8.50**	7.94	7.35
Grapes	**6.45**	6.48	6.49
Field crops	**5.77**	6.00	6.02
Farm related business services	**4.35**	3.86	3.79
Food products	**4.12**	4.42	4.68
Fruits	**3.70**	3.71	4.00
Vegetables	**3.45**	3.65	3.71
Corn	**3.30**	3.03	2.69
Wheat	**2.87**	2.88	2.87
Rural homes	**2.64**	2.62	2.64
Other livestock	**2.29**	2.31	2.22
Cash grains	**2.27**	2.00	1.91
Forestry	**1.84**	1.69	1.99
Horticulture specialties	**1.80**	1.88	2.10
General farm	**1.73**	1.64	1.60
Rural utilities	**1.44**	1.50	1.42
Sugarcane, sugar beets and potatoes	**1.42**	1.49	1.55
Logging and wood products	**1.34**	1.48	1.60
Rice	**1.29**	1.25	1.13
Cotton	**1.19**	1.20	1.19
Citrus fruits	**1.05**	1.08	1.14
Farm supplies	**0.98**	1.08	0.75
Poultry	**0.84**	0.92	0.85
Soybeans	**0.52**	0.51	0.48
Biofuel	**0.43**	0.56	0.64
Hogs	**0.35**	0.45	0.50
Other	**3.95**	3.71	3.42
Total	**100.00%**	100.00%	100.00%

Our chartered territory includes the states of Arizona, California, Colorado, Hawaii, Kansas, Nevada, New Mexico, Oklahoma, Utah, southeastern Idaho, and the far western edge of Wyoming. The following table illustrates the geographic distribution of the loan volume in our aggregate portfolio, which includes loans outside our chartered territory, as of December 31.

	Number of Associations	2011	2010	2009
California	**7**	**50.7%**	50.6%	51.1%
Kansas	**5**	**12.7**	12.5	11.9
Colorado	**3**	**7.6**	7.4	7.6
Oklahoma	**6**	**5.7**	5.8	5.7
New Mexico	**1**	**4.7**	4.6	4.5
Arizona	**1**	**3.4**	3.5	3.7
Utah	**1**	**2.0**	1.9	1.9
Idaho	**1**	**1.7**	1.7	1.7
Oregon	–	**1.6**	2.0	1.9
Texas	–	**1.2**	1.1	1.4
Washington	–	**1.0**	0.9	1.2
Nevada	–	**0.7**	0.8	0.9
Hawaii	**1**	**0.3**	0.3	0.3
Wyoming	–	**0.2**	0.2	0.3
Other states	–	**6.5**	6.7	5.9
Total	**26**	**100.0%**	100.0%	100.0%

The states of California and Kansas have volume representing more than 10% of our total portfolio with California representing 51% of the total District loan volume. However, the significant geographic and commodity diversification of California agriculture helps mitigate the risks associated with this loan concentration. According to the USDA National Agricultural Statistics Service, California agriculture ranks first in the nation in agricultural production, in excess of $37 billion in cash receipts from 81,700 farms and ranches and more than 400 different commodities raised. California produces about half of the U.S. grown fruit, nuts and vegetable crops, is the leading dairy producer in the nation, and is the sole producer of a large number of specialty crops. California's unmatched commodity diversification, from a number of different geographic locations throughout the state, provides an attractive agricultural lending environment.

Across the District, the principal balance outstanding for loans that are less than $250 thousand make up 16.0% of our loan volume and 77.5% of the number of loans. Loans that were originated for more than $5 million are 18.9% of the District loan volume and 0.7% of the number of loans. The table below details the loan principal by loan size category. Our ten largest loan complexes District-wide based on outstanding commitments totaled $882.3 million with $472.8 million in outstanding volume at December 31, 2011 and were 1.9% of our total loan volume.

	December 31, 2011		December 31, 2010		December 31, 2009	
(Range in thousands)	**Amount outstanding ($ in millions)**	**Number of loans**	Amount outstanding ($ in millions)	Number of loans	Amount outstanding ($ in millions)	Number of loans
$1 - $250	**$ 3,902.9**	**59,273**	$ 3,913.1	56,667	$ 3,866.5	57,335
$251 - $500	**2,672.0**	**7,348**	2,639.0	7,147	2,496.7	6,866
$501 - $1,000	**3,532.6**	**4,824**	3,436.4	4,613	3,364.3	4,478
$1,001 - $5,000	**9,636.2**	**4,465**	9,622.2	4,302	9,385.2	4,173
$5,001 - $25,000	**4,470.0**	**522**	4,438.1	528	4,662.4	543
$25,001 - $100,000	**131.2**	**4**	258.4	8	170.6	4
Total	**$ 24,344.9**	**76,436**	$ 24,307.2	73,265	$ 23,945.7	73,399

Credit Commitments

The Bank and Associations may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of their borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our combined financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2011, $7.74 billion of commitments to extend credit and $13.8 million of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance sheet credit risk because their amounts are not reflected on the combined statement of condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Bank and Associations may also participate in standby letters of credit to satisfy the financing needs of their borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2011, the District had $127.1 million of standby letters of credit.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Comparative information regarding high risk assets in the portfolio, including accrued interest, follows:

	December 31		
(dollars in thousands)	**2011**	2010	2009
Nonaccrual loans			
Real estate mortgage	**$ 169,104**	$ 183,488	$ 125,975
Production and intermediate-term	**101,343**	74,599	110,934
Agribusiness	**25,922**	29,446	53,580
Communication	**528**	721	2,063
Energy	–	–	984
Rural residential real estate	**607**	409	614
Lease receivables	**461**	346	698
Total nonaccrual loans	**297,965**	289,009	294,848
Accruing restructured loans			
Real estate mortgage	**9,786**	10,208	12,806
Production and intermediate-term	**12**	19	–
Agribusiness	**1,647**	–	–
Rural residential real estate	–	6	159
Total accruing restructured loans	**11,445**	10,233	12,965
Accruing loans 90 days past due			
Real estate mortgage	**5,677**	7,006	709
Production and intermediate-term	**4,814**	4,131	572
Agribusiness	**1,483**	–	111
Communication	**–**	–	113
Total accruing loans 90 days past due	**11,974**	11,137	1,505
Total impaired loans	**321,384**	310,379	309,318
Other property owned	**88,642**	115,693	57,686
Total high risk assets	**$ 410,026**	$ 426,072	$ 367,004
Nonaccrual loans to total loans	**1.22%**	1.19%	1.23%
Impaired loans to total loans	**1.32%**	1.28%	1.29%
High risk assets to total loans	**1.68%**	1.75%	1.53%
High risk assets to total shareholders' equity	**7.59%**	8.24%	7.95%

Total high risk assets decreased $16.0 million to $410.0 million compared with year-end 2010. Nonaccrual loan volume increased $9.0 million to $298.0 million at December 31, 2011, due to transfers into nonaccrual of $187.9 million and advances on nonaccrual loans of $14.6 million. These increases were offset by repayments of $100.4 million, transfers to other property owned of $47.1 million, charge-offs of $33.2 million, and reinstatements to accrual status of $15.3 million. Nonaccrual loans which are current with respect to principal and interest represented 60.24% of total nonaccrual volume at December 31, 2011, compared with 54.2% at year-end 2010 and 40.5% at year-end 2009. Although current, these loans did not meet all requirements for accrual status. Although nonaccrual loans to total loans increased slightly to 1.22%, the percentage remains at a relatively low level.

The decrease in other property owned was $27.1 million as a result of sales of $61.0 million and write-down of property values of $7.5 million. This was offset by $47.1 million that were transferred into other property owned during 2011. The largest property sales in the District related to cattle, dairy and horticulture, while the largest transfers in related to dairy, wine grapes, cattle, and other livestock. The majority of the $88.6 million in other property owned is held by two Associations. During 2010, the increase was primarily due to large properties that transferred into other property owned that were collateral from cattle, nursery, and wine and grape loans. Overall, high risk assets remain low at 1.68% relative to the size of our loan portfolio.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution. Although aggregated in the combined financial statements, the allowance for loan losses of each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the respective loan portfolios at that time. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses.

	December 31		
(dollars in thousands)	**2011**	2010	2009
Balance at beginning of year	**$ 118,557**	$ 112,242	$ 86,655
Charge-offs:			
Real estate mortgage	**8,685**	7,661	2,192
Production and intermediate-term	**17,886**	22,721	22,279
Agribusiness	**4,266**	15,668	27,794
Communication	–	230	1,742
Energy	**1,063**	4,247	–
Rural residential real estate	–	27	16
Lease receivables	**362**	162	58
Total charge-offs	**$ 32,262**	$ 50,716	$ 54,081
Recoveries:			
Real estate mortgage	**871**	847	162
Production and intermediate-term	**1,010**	4,297	839
Agribusiness	**(15)**	502	825
Communication	–	128	–
Energy	**32**	–	–
Lease receivables	–	3	–
Total recoveries	**$ 1,898**	$ 5,777	$ 1,826
Net charge-offs	**$ 30,364**	$ 44,939	$ 52,255
Provision for loan losses	**23,243**	51,254	86,869
Impact of Association merger	–	–	(9,027)
Balance at December 31	**$ 111,436**	$ 118,557	$ 112,242
Net charge-offs to average net loans	**0.13%**	0.19%	0.22%

The following table presents the allowance for loan losses by loan type as of December 31.

(dollars in thousands)	**2011**	2010	2009
Real estate mortgage	**$ 41,316**	$ 37,705	$ 23,529
Production and intermediate-term	**50,458**	53,501	59,942
Agribusiness	**15,732**	23,466	22,551
Communication	**549**	594	786
Energy	**2,376**	2,275	2,770
Water and waste disposal	**11**	6	7
International	**34**	21	50
Rural residential real estate	**57**	53	98
Lease receivables	**902**	935	2,508
Mission-related	**1**	1	1
Total	**$ 111,436**	$ 118,557	$ 112,242

Overall the allowance for loan losses decreased $7.1 million to $111.4 million at December 31, 2011. The primary factors impacting the decrease in allowance for loan losses were the net charge-offs of $30.4 million offset by provision for loan losses of $23.2 million. Charge-offs recorded during 2011 were recorded throughout the District; however, the largest charge-offs were related to two loans at one Association. Charge-offs during 2010 were recorded on specific loans in most Associations throughout the District. These charge-offs were typically recorded due to deterioration in the underlying loan collateral values as a result of the general market conditions. Impacting the allowance in 2009 was a $9.0 million reduction due to the impact of the merger of two Associations. Under GAAP the acquired association's allowance is recategorized in the fair value determination of the loans. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators are presented in the following table.

	December 31		
	2011	2010	2009
Allowance for loan losses as a percentage of:			
Gross loans	**0.46%**	0.49%	0.47%
Total impaired loans	**34.67%**	38.20%	36.29%
Nonaccrual loans	**37.40%**	41.02%	38.07%

The allowance for loan losses as relative percentages all decreased due to an increase in gross loan volume, nonaccrual loans and impaired loans, along with a decrease in the allowance for loan losses. See Note 3 to the accompanying combined financial statements for other detailed information regarding the allowance for loan losses.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolios and in our unfunded loan commitments and standby letters of credit. Credit risk also exists in our investment portfolio and with derivative counterparties as discussed later under Liquidity and Investments and Interest Rate Risk Management, respectively.

Credit risk is actively managed on an individual loan and portfolio basis through application of sound lending and underwriting standards, policies and procedures. Underwriting standards are utilized by each institution to determine an applicant's operational, financial, and managerial resources available for repaying debt within the term of the note and loan agreement. Underwriting standards include, among other things, an evaluation of:

- character - borrower integrity and credit history;
- capacity - repayment capacity of the borrower based on cash flows from operations or other sources of income;
- collateral - to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital - ability of the operation to survive unanticipated risks; and,
- conditions - intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, Associations cannot hold loan commitments to one borrower for more than 25.0% of the Association's permanent capital. Through lending delegations, AgBank restricted individual loan size hold limits to 15.0% of an Association's permanent capital; exceptions must be reported to the Bank. Within these parameters, each Association in the District sets its own lending limits to manage large loan concentration risk. Several Associations have further limited their exposure by adopting an individual loan size hold limit less than 15.0% of permanent capital. The District has also implemented a voluntary hold limit for large loan exposures on a District-wide basis. The hold limit for the least risk exposure is $350 million and the hold limit reduces as risk increases. Associations also set lending limits for special lending programs and commodity concentrations.

Internal lending delegations are established within the Bank and each Association to properly control the loan approval process. Delegations to staff are based on each institution's risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff member. Larger and more complex or risky loans are typically approved by loan committees with the most experienced and knowledgeable credit staff serving as members.

The Bank and most Associations have participation programs with other System and non-System institutions. For each institution, buying and selling loan volume, within and outside the System, can help reduce its concentrations and manage growth and capital position. Concentrations and credit risk are also managed through the utilization of federal government guarantee programs. Volume in the government guarantee programs was $248.6 million at December 31, 2011, $245.6 million at December 31, 2010 and $225.8 million at December 31, 2009.

The credit risk of some long-term real estate loans has been reduced by entering into agreements that provide long-term standby commitments by the Federal Agricultural Mortgage Corporation (Farmer Mac) to purchase the loans in the event of default. The amount of loans subject to these Farmer Mac enhancements was $697.8 million at December 31, 2011, $639.0 million at December 31, 2010 and $682.6 million at December 31, 2009. Included in other operating expenses were fees paid for these Farmer Mac enhancements totaling $2.8 million in 2011, $2.9 million in 2010 and $2.8 million in 2009. Under the Farmer Mac long-term standby commitment to purchase agreements, we continue to hold the loans in our portfolios, and we pay fees to Farmer Mac for the right to put a loan designated in these agreements to Farmer Mac at par in the event that the loan becomes significantly delinquent (typically four months past due). If the borrower cures the default, we must repurchase the loan and the enhancement remains in place. Farmer Mac long-term standby commitments to purchase agreements are further described in Note 3. In addition, at December 31, 2011, the District holds $591.6 million in Farmer Mac securities, which are guaranteed by Farmer Mac and backed by agricultural mortgage loans. We held $682.0 million in Farmer Mac securities as of December 31, 2010 and $783.9 million at December 31, 2009. We have counterparty risk with Farmer Mac on all of these transactions. Other than the contractual obligations arising from these business transactions between Farmer Mac and entities in the District, Farmer Mac is not liable for any debt or obligation of ours and we are not liable for any debt or obligation of Farmer Mac. For more information on Farmer Mac, refer to their website at www.farmermac.com.

Each institution in the District has internal control programs that evaluate the accuracy of credit quality reporting and effectiveness of credit administration. Furthermore, the Bank has loan covenant provisions in the General Financing Agreement (GFA) that require Associations to maintain accurate credit quality reporting and satisfactory credit administration management. No Associations were in default of the GFA as of December 31, 2011.

Approximately 63% of our loan volume is first mortgage real estate loans which must be secured by first liens on real estate. Production and intermediate-term lending accounts for most of the remaining loan volume and is also typically secured. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. Certain appraisals must be performed by individuals with a state certification or license.

District institutions use a two-dimensional risk rating model (Model) that is based on the Farm Credit System's Combined System Risk Rating Guidance. The Model estimates each loan's probability of default (PD) and loss given default (LGD). PD estimates the probability that a borrower will experience a default within twelve months from the date of determination. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify the inherent strengths, weaknesses and risks in each loan. PDs and LGDs are utilized in loan and portfolio management processes and are utilized for the allowance for loan loss estimates. This Model also serves as the basis for economic capital modeling.

The Model's 14-point probability of default scale provides for nine acceptable categories, one other assets especially mentioned (OAEM) category, two substandard categories, one doubtful category and one loss category; each carrying a distinct percentage of default probability. The Model's LGD scale provides for 6 categories, A through F, that have the following anticipated principal loss expectations and range of economic loss expectations:

- A 0% anticipated principal loss; 0% to 5% range of economic loss
- B 0% to 3% anticipated principal loss; > 5% to 15% range of economic loss
- C > 3% to 7% anticipated principal loss; > 15% to 20% range of economic loss
- D > 7% to 15% anticipated principal loss; > 20% to 25% range of economic loss
- E > 15% to 40% anticipated principal loss; > 25% to 50% range of economic loss
- F above 40% anticipated principal loss; above 50% range of economic loss

Below is our loan portfolio detail of PD and LGD based on the Model as of December 31, 2011.

Risk rating (% of loan principal and accrued interest)	A	B	C	D	E	F	Total
Acceptable							
1	–	–	–	–	–	–	–
2	0.02	–	–	–	–	–	0.02%
3	0.10	–	–	–	0.12	0.04	0.26%
4	1.34	2.79	1.13	1.13	0.20	0.55	7.14%
5	2.75	8.69	1.76	3.57	0.65	1.01	18.43%
6	2.86	11.84	2.80	5.96	1.07	0.85	25.38%
7	1.89	10.80	2.83	5.61	1.52	0.46	23.11%
8	0.97	5.21	1.71	2.58	0.63	0.33	11.43%
9	0.36	2.71	0.57	1.65	0.61	0.12	6.02%
10 (OAEM)	0.44	2.15	0.25	1.11	0.35	0.12	4.42%
Substandard							
11	0.14	1.01	0.24	0.76	0.31	0.10	2.56%
12	0.05	0.24	0.04	0.25	0.18	0.45	1.21%
Doubtful							
13	–	–	–	–	–	0.02	0.02%
Loss							
14	–	–	–	–	–	–	–
Total	10.92%	45.44%	11.33%	22.62%	5.64%	4.05%	100.00%

We also continue to classify our loans based on the Uniform Classification System (UCS). These classifications are as follows:

Classification	Description
Acceptable	Assets are expected to be fully collectible and represent the highest quality.
Other Assets Especially Mentioned (OAEM or Special Mention)	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 as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
Loss	Assets are not considered collectible.

The following table presents statistics based on UCS related to credit quality of the loan portfolio including accrued interest.

	December 31					
(dollars in millions)	**2011**		2010		2009	
Acceptable	**$ 22,610.7**	**91.97%**	$ 22,060.4	89.86%	$ 22,061.8	91.14%
OAEM	**1,056.1**	**4.30**	1,432.1	5.83	1,092.6	4.51
Total acceptable	**$ 23,666.8**	**96.27%**	$ 23,492.5	95.69%	$ 23,154.4	95.65%
Substandard	**914.6**	**3.72**	1,050.1	4.28	1,039.6	4.30
Doubtful	**2.7**	**0.01**	8.6	0.03	12.3	0.05
Total	**$ 24,584.1**	**100.00%**	$ 24,551.2	100.00%	$ 24,206.3	100.00%

Acceptable and OAEM loan volume increased to 96.27% at December 31, 2011 compared with 95.69% at December 31, 2010, which reflects a slight improvement in our portfolio as discussed previously. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolios.

LIQUIDITY AND INVESTMENTS

Liquidity is critical for the Bank to be able to function as a bank and is necessary to meet the District's financial obligations. Liquidity is needed to pay Systemwide Debt Securities as they mature, fund loans and other commitments and for business operations for the Bank and the Associations. Our primary source of liquidity is the Bank's ability to issue Federal Farm Credit Banks Consolidated Systemwide Debt Securities. The Farm Credit System is a government-sponsored enterprise (GSE) which benefits from broad access to the domestic and global capital markets. This access provides us with a dependable source of competitively priced debt which is critical for supporting our mission of providing credit to agriculture and rural America. However, 2011 U.S. Congressional negotiations aimed at raising the government's borrowing limit and addressing long-term budget imbalances have highlighted the risks to the System relating to the U.S. fiscal situation. These risks include the implied link between the credit rating of the System and the U.S. government given the System's status as a GSE. On August 2, 2011, Moody's affirmed the Aaa rating for the U.S. government and GSEs, including the Farm Credit System, with the rating outlook revised to negative. However, on August 5, 2011, Standard and Poor's Rating Service (S&P) lowered its long-term sovereign credit rating on the U.S. to AA+ from AAA with a negative outlook and on August 8, 2011, lowered the AAA long-term debt rating of the System and other GSEs to AA+ with negative outlook. The A-1+ short-term rating has not been affected. The U.S. government does not guarantee, directly or indirectly, the Systemwide Debt Securities, but our rating is constrained by the long-term sovereign rating on the U.S. We anticipate continued access to funding at competitive rates and terms necessary to support our lending and business operations; however, any future negative changes in the System's credit rating could increase our borrowing costs and limit our access to the debt capital markets.

A secondary source of liquidity is the Bank's liquid assets in its investment portfolio. The Bank generally provides the liquidity for the District. AgBank's liquid assets were comprised of cash and eligible investment securities. To be considered eligible for liquidity purposes, at least one credit rating of an investment security must be in the highest rated category of a nationally recognized credit rating service. U.S. Treasury securities, U.S. agency securities (except mortgage securities) and other obligations fully insured or guaranteed by the U.S., its agencies, instrumentalities and corporations are considered eligible investments under the FCA's regulations regardless of credit rating. Liquid assets were 16.5% of AgBank's total assets at December 31, 2011, 16.3% at December 31, 2010 and 17.6% at December 31, 2009.

FCA regulations require that the Bank's cash (including the proceeds of debt newly issued but not settled) and eligible investments be maintained in amounts sufficient to meet 90 days of maturing debt obligations on a continuous basis assuming no access to the capital markets. The number of days of liquidity is calculated by comparing maturing debt obligations with the total amount of cash and eligible investments maintained. As of December 31, 2011, AgBank held liquid assets comprised of cash and eligible marketable investments to be able to fund 135 days of debt maturities. On average during 2011, AgBank held liquid assets to be able to cover funding for an estimated 147 days. Our days coverage typically declines at year end due to year-end short-term loan volume advances that are typically repaid early in the next year. As of December 31, 2011, AgBank had 25 days in cash and treasuries and an additional 68 days in 100% U.S. government guaranteed securities, which exceeded our liquidity targets of 15 days and an additional 30 days, respectively.

A key objective of liquidity risk management is to plan and prepare for unanticipated changes in the capital markets. The System Banks and Funding Corporation have established a Contingency Funding Program. The program provides for contingency financing mechanisms and procedures to address potential disruptions in our communications, operations, and payments systems. Under this program, in addition to directly issuing Systemwide Debt Securities to certain select institutional investors, the Banks may also incur other obligations, such as purchases of Federal Funds, that would be the joint and several obligations of the Banks and would be insured by FCSIC to the extent funds are available in the Insurance Fund.

Funding Sources

As previously discussed, the Bank raises funds in the capital markets. All System debt is the joint and several obligation of the System Banks. The debt shown throughout this report represents AgBank's portion of Systemwide bonds and notes. The Bank is primarily responsible for this debt. This debt is senior to the claims of general creditors by FCA regulation and does not carry any covenants, events of default, trustee or indenture and is not subject to acceleration in the event of default. In 2011, AgBank issued a total of $46.57 billion in new and replacement debt to support its business activities. The debt issuances occurred through the Systemwide funding programs. This included designated and term bonds for longer maturity financing, and discount notes or floating rate obligations, for shorter maturity or floating rate financing.

AgBank had the following Systemwide Debt Securities outstanding as of December 31.

		2011			2010			2009	
(dollars in thousands)	**Amount**	**Weighted Interest Rate**	**Weighted Maturity**	Amount	Weighted Interest Rate	Weighted Maturity	Amount	Weighted Interest Rate	Weighted Maturity
Bonds	**$ 21,492,595**	**1.56%**	**2.78 years**	$ 21,242,459	1.82%	3.03 years	$ 22,489,270	2.28%	3.29 years
Discount notes	**2,069,180**	**0.13**	**98 days**	2,588,951	0.24	112 days	1,674,318	0.22	69 days
Medium-term notes	**40,125**	**5.47**	**1.75 years**	50,268	5.49	2.31 years	65,417	5.85	2.66 years
Total	**$ 23,601,900**	**1.44%**	**2.56 years**	$ 23,881,678	1.66%	2.74 years	$ 24,229,005	2.15%	3.08 years

AgBank's Systemwide debt obligations were $23.60 billion at December 31, 2011, down $279.8 million from $23.88 billion at December 31, 2010. Funding is actively managed and new loans and investments are funded as close as possible to when the assets are priced. The funding mix is comprised of various amounts of floating rate or fixed rate debt, which may be callable, and is distributed across the maturity spectrum depending on the terms and the optionality of the assets being funded. See Note 7 in the accompanying combined financial statements for additional details related to our bonds and notes.

Investments

As a means of mitigating the risk of short-term disruptions in our ability to obtain funding for business operations, the Bank maintains an investment portfolio. Liquidity is an essential characteristic for the investments purchased for this portfolio. Additionally, we are authorized to hold mission-related investments and other investments to support rural America. As a general rule, our investments for liquidity purposes are classified as available-for-sale, but typically we hold investments to their maturity. We do not actively trade this portfolio. The investment portfolio, excluding mission-related and other investments, is subject to a regulatory limit of 35% of average loans. As of December 31, 2011, these investments were 25.1% of average outstanding loans for the previous quarter. See Note 4 for additional details related to our investment securities.

Eligible Investments for Liquidity

Under FCA regulations, the Bank is authorized to hold eligible investments for purposes of maintaining a diverse source of liquidity, managing short-term surplus funds, and managing interest rate risk. The eligible investment portfolio, which excludes mission-related and other investments and securities that have become ineligible, serves as the major component of the Bank's liquidity portfolio. As of December 31, 2011, approximately 87% of our total eligible investment portfolio consisted of U.S. Treasuries, U.S. government guaranteed and federal agency guaranteed mortgage-backed securities. An additional 7.6% were FHA/VA reperformer securities that are private label mortgage-backed securities where the underlying loans are approximately 90% government guaranteed or insured and are further supported by certificates guaranteed by FNMA and FHLMC (federal agency wrap). Another 3.7% of the eligible investments were FDIC insured and therefore, fully guaranteed by the U.S. government.

In accordance with AgBank's board approved investments policy, we purchased only investments primarily issued or guaranteed by the U.S. government or one of its agencies. All mortgage-backed securities (MBS), asset-backed securities (ABS), and corporate securities were required to be in the highest rated category (AAA) at the time of purchase. Short-term securities (including federal funds), negotiable certificates of deposit and banker's acceptances must be rated in one of the two highest short-term rating categories (A2, P2, F2 or higher) by a nationally recognized credit rating service. Commercial paper investments must be in the highest short-term rating category (A1, P1, or F1).

All of our investment securities held for liquidity are classified available-for-sale and are reported at their estimated fair value on the Combined Statement of Condition. As of December 31, the composition of the District's eligible investment portfolio held for liquidity was as follows:

(dollars in thousands)	**2011**		2010		2009	
Eligible Investments for Liquidity	**Carrying Value**	**Percent of Total**	Carrying Value	Percent of Total	Carrying Value	Percent of Total
U.S. Treasury securities	**$ 501,312**	**12.9%**	$ 552,111	14.2%	$ 402,644	9.3%
Mortgage backed securities (MBS)						
U.S. Government guaranteed (GNMA)	**1,807,355**	**46.4**	1,880,625	48.2	1,544,430	35.7
Federal Agency guaranteed (FNMA, FHLMC)	**1,089,280**	**28.0**	469,315	12.0	918,355	21.2
Private Label - FHA/VA reperformers with federal agency wrap	**296,707**	**7.6**	354,320	9.1	413,289	9.5
Private Label - FHA/VA reperformers without federal agency wrap	–	–	378,839	9.7	716,181	16.5
Non-agency	**35,949**	**0.9**	54,957	1.4	125,448	2.9
Total MBS	**$ 3,229,291**	**82.9%**	$ 3,138,056	80.4%	$ 3,717,703	85.8%
FDIC insured bank debt (TLGP)	**142,846**	**3.7**	178,418	4.6	178,670	4.1
Non-agency home equity asset-backed securities (ABS)	**21,079**	**0.5**	29,960	0.8	33,799	0.8
Total eligible investment securities	**$ 3,894,528**	**100.0%**	$ 3,898,545	100.0%	$ 4,332,816	100.0%

Other Investments Not Eligible for Liquidity

To further the System's mission to serve rural America, the District has mission-related programs which have been approved by the FCA. The FCA determines limitations on mission-related investments. Additionally, we are authorized to hold Farmer

Mac securities which are included in other investments. Investments that are ineligible for liquidity purposes are also included in the following table along with these other investments. The Bank may be required by FCA to divest of certain types of investment securities within six months should one become ineligible under the regulations. We have submitted plans to FCA to continue to hold all of these securities and FCA has approved us holding these securities subject to meeting certain specified conditions. Farmer Mac, mission-related and other investments are not included in the liquidity calculations as they do not have the same liquidity characteristics as eligible investments. As of December 31, the composition of our other investments portfolio was as follows:

(dollars in thousands)	**2011**		2010		2009	
Other Investments Not Eligible for Liquidity	**Carrying Value**	**Percent of Total**	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Available-for-sale:						
Farmer Mac securities	**$ 369,720**	**28.1%**	$ 424,431	35.5%	$ 492,724	48.0%
Ineligible securities for liquidity						
Private-Label MBS - FHA/VA reperformer without federal agency wrap	**558,874**	**42.6**	312,042	26.1	3,451	0.4
Non-agency MBS	**115,826**	**8.8**	144,472	12.1	147,890	14.4
Non-agency Home equity ABS	**41,579**	**3.2**	52,160	4.3	83,916	8.2
Total available-for-sale	**$ 1,085,999**	**82.7%**	$ 933,105	78.0%	$ 727,981	71.0%
Held-to-maturity:						
Farmer Mac securities	**221,847**	**16.9**	257,528	21.5	291,198	28.4
Mission-related investments	**5,138**	**0.4**	5,961	0.5	6,708	0.6
Total held-to-maturity	**$ 226,985**	**17.3%**	$ 263,489	22.0%	$ 297,906	29.0%
Total other investments not eligible for liquidity	**$ 1,312,984**	**100.0%**	$ 1,196,594	100.0%	$ 1,025,887	100.0%

Under Board approved policies, we may hold Farmer Mac securities which are pools of agricultural loans that have been securitized and guaranteed by Farmer Mac. At year-end, we held $591.6 million of Farmer Mac securities, compared with $682.0 million at year-end 2010. (See the Credit Risk Management section for more discussion about Farmer Mac.) All of these Farmer Mac securities are backed by loans originated by Associations and previously held by the Associations under Farmer Mac standby purchase commitments.

Additional Investment Information

AgBank held private label FHA/VA reperformer securities at a fair value of $558.9 million at December 31, 2011, where the underlying loans are approximately 90% government guaranteed or insured but have no further guarantees by FNMA or FHLMC or other federal agency. These are credit enhanced by minor amounts of subordination and are 10.7% of our total portfolio. In one security, certain loans totaling $11.3 million were determined to be lacking appropriate documentation for the FHA insurance and therefore are not eligible for the government guarantee or insurance. During 2011, eight FHA/VA reperformer securities were downgraded below AAA and became ineligible for liquidity purposes. All FHA/VA reperformer securities with a fair value of $558.9 million have been downgraded below AAA by all rating agencies as of December 31, 2011, compared with seven securities with a fair value of $312.0 million as of December 31, 2010.

At December 31, 2011, AgBank held eligible and ineligible non-agency mortgage-backed securities with a fair value of $151.8 million, which are 2.9% of the total portfolio. These non-agency securities are supported by underlying fixed and adjustable rate mortgages that are either nonconforming as to size or were originated with limited documentation. Securities with a fair value of $115.8 million were downgraded below investment grade (below BBB) by all rating agencies as of December 31, 2011. This is compared with non-agency securities with a fair value of $144.5 million at December 31, 2010 that were downgraded below investment grade by all rating agencies.

AgBank held eligible and ineligible non-agency home equity asset-backed securities at December 31, 2011 with a fair value of $62.7 million that were primarily first lien securities collateralized by subprime home equity mortgages. These securities are 1.2% of the total portfolio. As of December 31, 2011, asset-backed securities with a fair value of $32.9 million have been downgraded below investment grade (below BBB) by all rating agencies. This is compared with asset-backed securities with a fair value of $52.2 million that were downgraded below investment grade as of December 31, 2010.

Other-Than-Temporarily Impaired Investments

Due primarily to the deterioration of certain underlying home values, AgBank recognized $23.3 million of credit-related losses on other-than-temporarily impaired investments during 2011. The credit-related losses were composed of $12.7 million of losses on non-agency mortgage-backed securities, $2.3 million of losses on home equity asset-backed securities, and $8.3 million of losses on FHA/VA reperformer securities.

During 2010, AgBank recognized $16.1 million of credit-related losses on other-than-temporarily impaired investments. The credit-related losses consisted of $4.9 million of losses on non-agency mortgage-backed securities, $8.6 million of losses on home equity asset-backed securities, and $2.6 million of losses on FHA/VA reperformer securities.

During 2009, AgBank recognized $36.4 million of credit-related losses on other-than-temporarily impaired investments. The credit-related losses consisted of $28.1 million on non-agency mortgage-backed securities and $8.3 million on home equity asset-backed securities.

To determine the credit-related losses on impaired securities, AgBank estimated the expected cash flows of the underlying collateral using management's best estimate of current key assumptions, such as default rates, collateral loss, loss severity and voluntary prepayment speeds. Assumptions can vary widely from loan to loan and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics and collateral type. AgBank used a third party vendor to determine how the underlying collateral cash flows will be distributed to each security. Expected principal and interest cash flows on an impaired debt security are discounted using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value for the specific security. Based on the expected cash flows derived from the model, AgBank expected to recover the remaining unrealized losses on the FHA/VA reperformers, non-agency mortgage-backed, and asset-backed securities. The Bank does not intend to sell these securities and it is not likely that the Bank will be required to sell the securities before their maturity.

Unrealized Investment Losses

Total investments included net unrealized losses of $226.6 million at year-end 2011, $183.1 million at year-end 2010 and $309.2 million at year-end 2009. Total investment securities had a gross unrealized loss position of $257.2 million at December 31, 2011, which included the non-credit-related losses of the impaired securities. The length of time that these individual securities have been valued below book value ranges from one month to over 12 months with unrealized losses ranging from less than $1 thousand to nearly $32 million. The gross unrealized loss for these investments is 4.7% of the amortized cost of total investment securities. The unrealized loss position at December 31, 2011 is primarily due to market volatility and reduced liquidity in the marketplace. We do not intend to sell the securities and it is not likely that we will be required to sell the securities before recovery of their amortized cost basis. During 2011, AgBank sold two very small securities that were in an unrealized loss position for a loss of $261 thousand. During 2010, due to unique market opportunities, AgBank sold three securities. Except for the fifteen securities where AgBank had recognized a credit-related other-than-temporary impairment, the unrealized investment losses are not considered to be other-than-temporary impairments at December 31, 2011. We continue to monitor these losses closely and subsequent changes in market or credit conditions could change our evaluation. For more information see Note 4.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through retained net income after patronage. However, the Bank does not have direct access to the capital of its affiliated Associations. Likewise, capital in one Association is not available to address capital needs of another Association or the Bank. Total District shareholders' equity at December 31, 2011 was $5.40 billion, compared with $5.17 billion at year-end 2010 and $4.61 billion at year-end 2009. The $234.2 million increase in shareholders' equity during 2011 reflects net income, partially offset by patronage refunds and dividends paid. Our strong capital position is reflected in the following ratio comparisons.

	December 31		
	2011	2010	2009
Shareholders' equity as a percent of total assets	**17.69%**	17.04%	15.31%
Retained earnings as a percent of shareholders' equity	**93.66%**	91.27%	94.03%

Shareholders' equity as a percent of total assets increased during 2011, as equity grew proportionately faster than assets due to strong earnings. The primary reason for the increase in retained earnings as a percent of shareholders' equity was the increase in retained earnings.

Retained Earnings

Our retained earnings increased $342.5 million to $5.06 billion at December 31, 2011 from $4.72 billion at December 31, 2010. The increase was a result of net income of $508.1 million, partially offset by $146.1 million of patronage refunds and $18.7 million of preferred stock cash dividends. During 2009, $207.5 million was transferred to paid-in capital from retained earnings as required by GAAP related to a merger of two Associations in our District with a subsequent adjustment in 2011 of $723 thousand. For more information related to the merger refer to Note 1 of the Notes to the Combined Financial Statements.

Stock and Participation Certificates

Stock and participation certificates decreased $477 thousand to $38.4 million at December 31, 2011, from $38.9 million at December 31, 2010. The decrease was due to $4.5 million of stock and participation certificate retirements, partially offset by issuances of $4.0 million. Certain Associations require stock for each borrower loan, while other Associations require stock for each borrower. The initial investment requirement varies by Association and ranges from the statutory minimum of two percent of the loan amount or one thousand dollars, whichever is less, to three percent of the loan. Stock is discussed further in Note 8 of the Notes to the Combined Financial Statements.

Pursuant to the merger between CoBank and AgBank, AgBank undertook a recapitalization transaction on December 31, 2011 in order to align all Associations with CoBank's stock investment requirement. The recapitalization involved the tax-free issuance of AgBank common stock to each Association in exchange for an equal amount of attributed surplus previously allocated on a patronage basis to such Association. The attributed surplus was a Bank equity representing prior year earnings. The exchange resulted in a distribution from retained earnings of $246.0 million and an increase in capital stock. This transaction was eliminated in combination.

Preferred Stock

Preferred stock totaled $543.4 million at December 31, 2011, compared with $543.2 million at December 31, 2010. The increase is due to Associations' net stock issuances of $196 thousand. Three Associations and the Bank have FCA approved preferred stock programs. Association preferred stock programs are limited to investments made by Association members. Retirement of Association preferred stock requires Association board approval. AgBank issued $225.0 million of perpetual non-cumulative fixed-to-floating preferred stock in 2007. Dividends are non-cumulative and declared at the sole discretion of the Board of Directors.

Additional Paid-In Capital

The additional paid-in capital of $206.9 million represents the excess value received in net assets over the par value of capital stock and participation certificates issued by American AgCredit, ACA in connection with the Association's merger with Farm Credit of the Heartland, ACA in November 2009.

Accumulated Other Comprehensive Income and Losses

Accumulated other comprehensive losses totaled $446.1 million at December 31, 2011, an increase of $108.7 million compared with year-end 2010. Our accumulated other comprehensive losses are comprised of unrealized losses in our investment portfolio and derivative portfolio, and an unfunded defined benefit pension liability of net unamortized actuarial losses and prior service costs.

As our investment portfolio is held primarily for liquidity purposes, the majority of the portfolio is considered available-for-sale and is carried at fair value. Unrealized gains and losses are reported as a separate component of shareholders' equity. The other comprehensive loss on investments at December 31, 2011 was $235.0 million, compared with $191.1 million at December 31, 2010. Our net unrealized loss on available-for-sale investments increased $67.5 million due primarily to a reduction in the fair value of FHA/VA reperformer securities. Reducing the other comprehensive loss was $23.3 million of recognized credit-related losses on other-than-temporary impairments on investment securities as discussed under Additional Investment Information in the Liquidity section and a recognized net loss of $261 thousand on the sale of two securities. Unrealized loss on available-for-sale investments was $315.2 million at December 31, 2009. Upon adoption of new FASB guidance in the first quarter of 2009, we recorded a one-time increase to beginning retained earnings and offsetting increase to other comprehensive loss of $2.0 million to reclass the portion of the other-than-temporary impairment that was not related to the credit loss on an other-than-temporarily impaired security at December 31, 2008.

Our derivative portfolio includes certain derivatives designated as cash flow hedges. Unrealized gains or losses on the effective portion of cash flow hedges are reported as a separate component of shareholders' equity. Our unrealized loss on cash flow derivatives increased $6.9 million to $14.4 million at December 31, 2011. The increase in loss in 2011 was due to a reduction in the market value of our interest rate caps since December 31, 2010. Unrealized loss on cash flow derivatives was $7.5 million at December 31, 2010 and $941 thousand at December 31, 2009.

Certain District employees participate in defined benefit pension plans. FASB guidance requires recognition of the plans' unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income/(loss). The balance of the unfunded defined benefit pension liabilities recognized as an other comprehensive loss was $196.7 million at December 31, 2011, $138.8 million at December 31, 2010 and $140.2 million at December 31, 2009. Employee benefit plans are discussed further in Note 10 of the Notes to Combined Financial Statements.

Capital Plan and Regulatory Requirements

Each Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plans assess the capital level necessary for financial viability and to provide for growth. Each plan is updated at least annually and approved by the institution's Board of Directors. FCA regulations require Boards of Directors to consider certain factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of the customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, potential obligations under joint and several liability, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

FCA regulations establish minimum capital standards expressed as a ratio of capital to assets, taking into account relevant risk factors for all System institutions. In general, the regulations provide for a relative risk weighting of assets and establish a minimum ratio of permanent capital, total surplus and core surplus to risk-weighted assets. Additionally, FCA regulations require all System Banks to maintain a minimum net collateral ratio of at least 103%. However, in connection with preferred stock and subordinated debt offerings, the Banks are currently required to maintain a minimum net collateral ratio of 104%. The net collateral ratio is basically a leverage ratio and is not risk-based. Prior to January 1, 2012, a net collateral ratio below 104% would trigger provisions of the System's Market Access Agreement (MAA) that could restrict or prohibit the Bank's issuance of Systemwide Debt Securities. The MAA was recently amended and effective January 1, 2012, if the net collateral ratio falls below 104.5%, provisions of the MAA are triggered. This is discussed in more detail under Other Risks - Structural Risks. AgBank closely monitored the level of the net collateral ratio and targeted a ratio of 104.75% to 105.25%. AgBank's capital ratios and net collateral ratio as of December 31 and the FCA minimum requirements were as follows:

	Regulatory Minimum	**2011**	2010	2009
Permanent Capital Ratio	7.00%	**22.27%**	20.23%	17.20%
Total Surplus Ratio	7.00%	**17.62%**	16.02%	13.37%
Core Surplus Ratio	3.50%	**13.93%**	12.34%	9.66%
Net Collateral Ratio	104.00%	**105.15%**	105.61%	105.24%

AgBank's regulatory capital ratios increased during 2011 and were significantly above the regulatory minimums. Credit rating downgrades in AgBank's investment portfolio, especially those below investment grade, negatively impacted its capital ratios in 2009.

Information on the Association capital ratios is detailed below.

		2011			2010			2009		
	Regulatory Minimum	**High**	**Low**	**Weighted Average**	High	Low	Weighted Average	High	Low	Weighted Average
Permanent Capital Ratio	7.00%	**31.12%**	**12.68%**	**18.20%**	28.35%	12.48%	16.77%	27.63%	10.89%	15.05%
Total Surplus Ratio	7.00%	**30.71%**	**12.46%**	**16.70%**	27.95%	11.02%	15.29%	27.22%	10.05%	13.83%
Core Surplus Ratio	3.50%	**26.98%**	**12.46%**	**16.20%**	24.37%	10.98%	14.91%	23.79%	10.05%	13.63%

All District Associations and AgBank exceeded the regulatory requirements at December 31, 2011. The Associations are expected to do so throughout 2012.

For a complete discussion of the changes in shareholder's equity, you should refer to the Combined Statement of Changes in Shareholders' Equity and Note 8 of Notes to Combined Financial Statements.

Economic Capital

The District's capital management framework is intended to ensure there is sufficient capital to support the underlying risks of its business activities, exceed all regulatory and System capital requirements, and achieve certain capital adequacy objectives. We began our economic capital project in 2004 and have implemented economic capital software, methodologies, and assumptions to quantify the capital requirements related to the primary areas of risk. We periodically determine our economic capital requirements, based on the credit risk, interest rate risk, operational risk, and market risk inherent in our operations. Due to the evolving nature of economic capital, we anticipate the methodologies and assumptions will continue to be refined.

Economic capital is a measure of risk and is defined as the amount of capital required to absorb potential unexpected losses resulting from extremely severe events over a one-year time period.

- "Unexpected losses" are the difference between potential extremely severe losses and the expected (average) loss over a one-year time period.
- The amount of economic capital required is based on our risk profile and a targeted solvency standard. For economic capital modeling purposes, we, in conjunction with the other System Banks, have targeted a "AA" solvency standard, which equates to a 99.97% confidence level. This means the likelihood of incurring losses in excess of the required economic capital amount is estimated to be similar to the likelihood of a "AA" rated bond defaulting (0.03% probability).

There are four major types of risk which are considered in attributing economic capital:

- Credit Risk - The risk that borrowers or counterparties default on their financial obligations.
- Interest Rate Risk - The risk generated from changes in interest rates.
- Operational Risk - The risk of loss resulting from inadequate or failed internal processes or systems, human factors, or changes in the competitive environment.
- Market Risk - Exposures related to asset residual values affiliated with leasing activity.

These risks are measured and aggregated to estimate the exposure to extremely severe events and any impact to our level or composition of capital.

Methodologies and assumptions used in measuring economic capital were jointly developed by our risk management and financial management personnel, in consultation with industry experts. The modeling considers the economic capital requirements of Associations, through the evaluation of the Associations' retail credit risk, operational risk, and interest rate risk. An economic capital shortfall (which is the difference between available capital and required economic capital) at any Association is included in AgBank's economic capital requirements. All models are calibrated to achieve a standard of default protection equivalent to a "AA" rated bond. At December 31, 2011, AgBank and District Associations held capital in excess of economic capital requirements.

INTEREST RATE RISK (IRR) MANAGEMENT

Our overall IRR management objective is to maintain a sound level of capital, earnings, market value of equity, and liquidity, regardless of the interest rate environment. IRR is the variability in earnings or long-term market value of equity that may result from changes in interest rates. Because the Bank match funds most of the Association loans, the Bank incurs and manages the majority of IRR for the District. District IRR arises primarily from the following sources:

- Yield curve risk - results from changes in the level, shape, and implied volatility of the yield curve. Changes in the yield curve often arise due to the market's expectation of future interest rates at different points along the yield curve.
- Equity positioning/mismatch risk – results from the maturity mix of assets funded by equity and the timing mismatch between the maturity or repricing of assets and liabilities.
- Option risk - results from "embedded options" that are present in many financial instruments, including the right to prepay loans before the contractual maturity date. Lending practices or loan features that provide the borrower with flexibility frequently introduce a risk exposure for the lender. For example, the cash flows on some of our fixed-rate agricultural loans and most of our mortgage-related investment securities are sensitive to changes in interest rates because borrowers may have the flexibility to partially or completely repay the loan ahead of schedule. If interest rates have fallen, we may be forced to reinvest prepaid principal at a lower rate, which may reduce our interest rate spread unless the underlying debt can be similarly refinanced. Interest rate caps are another form of embedded option risk that may be present in certain investments and adjustable rate loans. Interest rate caps typically prevent the rate on the loan or investment from increasing above a defined limit. In a rising rate environment, our spread may be reduced if caps limit upward adjustments to loan rates while debt costs continue to increase.
- Basis risk - results from unexpected changes in the relationships among interest rates and interest rate indexes. Basis risk can produce volatility in the spread earned on a loan or an investment relative to its cost of funds. This risk arises when the floating rate index tied to a loan or investment differs from the index on the debt issued to fund the loan or investment.

The process for managing IRR was based on the policies established by our Boards of Directors, and the guidelines and strategies established by our Asset/Liability Management Committees. These policies addressed measuring and managing IRR and established limits for IRR exposure. IRR retained by the Associations is predominately related to the change in earnings on equity.

One of the primary benefits of our status as a GSE has been open and flexible access to the debt markets and a considerable amount of structural flexibility in the maturity and types of debt securities issued. Structural flexibility enables us to issue Systemwide Debt Securities that offset some of the primary IRR exposure embedded in our loans. For example, by issuing LIBOR and/or prime indexed, floating-rate Systemwide Debt Securities, we are able to minimize the basis risk exposure presented by our LIBOR-indexed, variable-rate and prime rate loans. As previously discussed, some of our fixed-rate loans provide borrowers with the option to prepay their loans. In most interest rate environments, we can issue callable debt to help manage this risk exposure. Callable debt provides us with the option to call and retire debt early in order to maintain a better match between the duration of our assets and our liabilities.

While some of our fixed-rate loans provide the borrower with the option to prepay the loan at any time, a significant portion of our fixed-rate loan portfolio contains provisions requiring a reinvestment fee to partially or fully compensate us for the cost of retiring the debt that is associated with the loan asset.

The techniques utilized to measure and manage our IRR exposure include:

- Interest Rate Gap Analysis - compares the amount of interest sensitive assets to interest sensitive liabilities in defined time periods.
- Duration Gap Analysis - measures the difference between the estimated durations of assets and liabilities.
- Net Interest Income Sensitivity Analysis - projects the impact of changes in the level of interest rates on net interest income for the next year.
- Market Value of Equity Sensitivity Analysis - estimates the sensitivity of the market value of assets, liabilities and equity, given various interest rate scenarios.

The IRR measurement techniques described above are performed utilizing an asset/liability simulation model from a third-party vendor. The major assumptions used in these analyses have been regularly reviewed by Management, and adjusted as necessary. Various model validation processes have been completed on a regular basis in accordance with the Bank's computer-based model validation policy.

Interest Rate Gap Analysis

The difference between the amount of interest earning assets and interest bearing liabilities repricing or maturing in a given time period is referred to as a "gap." A positive gap denotes asset sensitivity, whereby more assets would be repricing than liabilities. A negative gap denotes liability sensitivity or a greater amount of liabilities repricing than assets, over a given period of time. Within the gap analysis, gaps are also created when equity is used to fund assets. Equity reduces the amount of debt that otherwise would be required to fund a certain level of assets. When interest rates are falling, our equity is invested in loans and investment securities that are repricing to lower yields. When interest rates are rising, our equity is invested in assets that are being repriced to higher yields. The interest rate gap analysis is a static indicator, which does not reflect the dynamics of the balance sheet (including rate and spread changes), and may not necessarily indicate the sensitivity of net interest income in a changing rate environment. The following analysis reflects the District's interest earning assets, interest bearing liabilities, and resulting gap position in defined time segments, including the impact of derivatives.

INTEREST RATE GAP ANALYSIS
As of December 31, 2011

(dollars in millions)	0-6 Months	7-12 Months	1 year – 5 years	Over 5 Years	Total
INTEREST EARNING ASSETS					
Loans and notes receivable, net	$ 15,298.8	$ 1,279.7	$ 5,788.9	$ 1,977.5	$ 24,344.9
Investment securities	4,137.7	405.7	433.9	230.2	5,207.5
Total interest earning assets	$ 19,436.5	$ 1,685.4	$ 6,222.8	$ 2,207.7	$ 29,552.4
INTEREST BEARING LIABILITIES					
Systemwide debt securities	$ 15,694.5	$ 1,571.0	$ 4,104.9	$ 2,231.5	$ 23,601.9
Other bonds and notes	955.5	–	–	–	955.5
Total interest bearing liabilities	$ 16,650.0	$ 1,571.0	$ 4,104.9	$ 2,231.5	$ 24,557.4
Static Gap	$ 2,786.5	$ 114.4	$ 2,117.9	$ (23.8)	$ 4,995.0
Cumulative Gap	$ 2,786.5	$ 2,900.9	$ 5,018.8	$ 4,995.0	$ –

The interest rate gap position as of December 31, 2011 would be characterized as asset sensitive, as indicated by the positive cumulative gap through year one of $2.9 billion. Given this asset sensitive position, net interest income would generally be favorably impacted in the short-term from a market characterized by rising interest rates and unfavorably impacted in a declining interest rate environment.

Duration Gap Analysis

Duration is the weighted average maturity (typically measured in months or years) of an instrument's cash flows, weighted by the present value of those cash flows. As such, duration provides an estimate of an instrument's sensitivity to changes in market interest rates. The duration gap is the difference between the estimated durations of assets and liabilities, including the effect of related hedges. Duration gap summarizes the extent to which estimated cash flows for assets and liabilities are matched, on average, over time. A positive duration gap indicates the duration of assets exceeds the duration of liabilities. A negative duration gap indicates the duration of assets is less than the duration of liabilities. Higher numbers, whether positive or negative, indicate greater sensitivity of the market value of equity over the long-term in response to changing interest rates. The duration gap provides a relatively concise and simple measure of the IRR inherent in the balance sheet, but it is not directly linked to expected future earnings performance. At December 31, 2011, utilizing a 100 basis point parallel shift in interest rates, the District's duration of assets was 13.8 months and duration of liabilities was 13.1 months, resulting in a positive duration gap of 0.7 months. For a similar calculation at December 31, 2010, our duration gap was a negative 2.2 months.

Interest Rate Sensitivity Analysis

In addition to the view of interest rate risk exposure shown by interest rate gap and duration gap analysis, further simulations are completed to measure net interest income and market value of equity under different interest rate environments.

Net interest income (NII) reflects the difference between the interest income earned on loans and investments (interest earning assets) and the interest expense paid on debt, typically Systemwide bonds and notes (interest bearing liabilities). A common method utilized to measure NII sensitivity is rate shock analysis. Rate shock analysis simulates the impact on net interest income over a twelve month period from an immediate parallel change in interest rates, typically plus and minus 2.00% (200 basis points).

Market value of equity (MVE) simulation is the process of generating forecasts of future interest rate scenarios and applying these rates to generate estimated cash flows for assets, liabilities, and off-balance sheet items. The estimated cash flows are then discounted using the forecasted rate scenarios. Rate shock analysis is also utilized to measure MVE sensitivity, which represents the estimated change in present value of expected net cash flows.

To further assess IRR exposure at the Bank level, NII and MVE are also modeled under various alternative scenarios, including reduced prepayment levels, and non-parallel yield curve slope changes. Additional NII alternative scenarios are modeled including changes in funding spreads and gradual upward or downward interest rate movements (known as "ramps").

The below table reflects the District's NII and MVE sensitivity under parallel interest rate shock scenarios as of December 31.

	Net Interest Income Sensitivity Analysis					**Market Value of Equity Sensitivity Analysis**				
	-200 b.p.	**-100 b.p.**	**-1 b.p.***	**+100 b.p.**	**+200 b.p.**	**-200 b.p.**	**-100 b.p.**	**-1 b.p.***	**+100 b.p.**	**+200 b.p.**
December 31, 2011	**(1.1%)**	**(0.5%)**	**(0.3%)**	**4.4%**	**8.3%**	**(0.6%)**	**0.9%**	**0.0%**	**(1.8%)**	**(3.5%)**
December 31, 2010	(2.9%)	(1.7%)	(0.3%)	5.7%	10.8%	(0.7%)	0.1%	0.0%	(0.4%)	(1.2%)
CIPA Limit **			(15.0%)		(15.0%)			(15.0%)		(15.0%)

* *Consistent with regulatory reporting requirements, the -1 basis point interest rate shock scenario reflects one-half of the 3-month Treasury rate at December 31, 2011.*

** *12/31/11 limit established in System Contractual Interbank Performance Agreement (CIPA). CIPA is discussed further under Other Risks - Structural Risk.*

Based on these sensitivity results, our NII would generally benefit, in the short-term, from a market characterized by rising interest rates. However, an increase in interest rates would result in a negative impact to our MVE. In contrast, our NII would generally deteriorate in a declining interest rate environment while the impact to MVE would be generally limited. In the MVE sensitivity analysis above, valuation spreads for marketable investment securities reflect those implied in current market prices.

Derivative Instruments

Derivative instruments are used as hedges against interest rate and liquidity risks and to lower the overall cost of funds. Derivative transactions are not entered into or held for trading or speculative purposes. The ability to issue various types of debt securities, or modify the debt securities by using derivative instruments, provides greater and necessary flexibility to manage interest rate risk. The aggregate notional amount of derivative financial instruments, most of which consisted of interest rate swaps (swaps) and interest rate caps, increased to $2.75 billion at December 31, 2011, compared with $2.67 billion at December 31, 2010.

The derivative information below represents the types of derivatives and their notional amounts outstanding for the periods indicated. The fair values of these derivatives (not the notional amounts) are recognized in the Combined Statement of Condition.

(dollars in millions)	**2011**	2010	2009
Receive fixed interest rate swaps	**$ 1,280.0**	$ 1,385.0	$ 1,650.0
Pay fixed interest rate swaps	**–**	–	4.6
Interest rate caps	**1,465.0**	1,285.0	1,125.0
Foreign exchange	**–**	–	1.4
Total notional amount	**$ 2,745.0**	$ 2,670.0	$ 2,781.0

In managing our interest rate and liquidity risks, different derivative types are used to achieve a variety of objectives. Receive fixed swaps are used to improve liquidity by extending the term of the debt. Interest rate swaps may allow AgBank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to AgBank if floating rate borrowing were made directly. The receive fixed (pay floating) swaps are used to change the repricing characteristics of certain liabilities from a fixed rate to a floating rate, matching the floating rate repricing characteristics of the assets they fund over the life of the fixed rate debt. Pay fixed swaps are used primarily to change the repricing characteristics of liabilities from floating rate to fixed rate. The pay fixed swaps are generally utilized to lock in the cost of future debt issuance. Interest rate caps are used to synthetically place a ceiling on the interest rates on issuances of debt thereby helping to manage interest expense. Interest rate caps are also used to protect interest income by offsetting caps that are present in certain adjustable rate loans we make and floating rate investments we hold. Interest rate floors are useful to synthetically offset the declines in interest income on variable or floating rate assets which occur when interest rates fall. Foreign exchange derivatives are used to protect us from changes in foreign currency exchange rates between a borrower advance and borrower payment.

By using derivative instruments, the Bank is exposed to the credit risk of the counterparty. We manage this counterparty credit risk by:

- Diversifying our derivative positions among various counterparties;
- Selecting highly rated counterparties;
- Using master agreements that provide for the "netting" of payments and the "right of offset" with the counterparty; and,
- Executing collateral support agreements which require the receipt of collateral at a certain threshold and thus limits the unsecured exposure to the counterparty.

Notional amounts of these instruments, which are not reflected on the Combined Statement of Condition, are indicative of the derivative activities, but are not indicative of the level of credit risk associated with the derivatives as the risk exposure is the difference in the value of the applicable cash flows. The following table summarizes derivative notional amounts outstanding by credit rating of the derivative counterparty.

(dollars in millions)	**December 31, 2011**			December 31, 2010		
S&P Credit Rating	**Number of Counterparties**	**Notional Amount**	**Percent of Notional**	Number of Counterparties	Notional Amount	Percent of Notional
AA	**–**	**$ –**	**–**	3	$ 980.0	36.7%
AA-	**3**	**1,350.0**	**49.1%**	1	930.0	34.8
A+	**1**	**780.0**	**28.4**	1	350.0	13.1
A	**1**	**350.0**	**12.8**	2	410.0	15.4
A-	**2**	**265.0**	**9.7**	–	–	–
Total	**7**	**$ 2,745.0**	**100.0%**	7	$ 2,670.0	100.0%

The credit risk exposure is a small percentage of the notional amounts and represents the replacement cost of the derivative in the marketplace in the event of non-performance by the counterparty. To the extent that the derivative has a positive fair value, the counterparty would owe the Bank on early termination of the derivative and therefore the Bank is exposed to credit risk from the counterparty. The following table shows AgBank's exposure to credit risk from counterparties at December 31, 2011. Credit exposure to counterparties on derivatives is shown by the counterparty credit rating and maturity.

(dollars in millions) S & P Credit Rating	Number of Counterparties	Notional Principal	Years to Maturity (1) Less than 1 year	1 – 5 Years	Over 5 Years	Maturity Distribution Netting (2)	Exposure	Collateral Held (3)	Exposure Net of Collateral
AA-	3	$ 1,350.0	$ 0.9	$ 34.2	$ 5.7	$ –	$ 40.8	$ 11.9	$ 28.9
A+	1	780.0	–	14.6	12.0	–	26.6	18.6	8.0
A	1	350.0	2.1	1.5	1.2	–	4.8	5.1	(0.3)
A-	2	265.0	–	12.4	0.5	–	12.9	12.9	–
Total	7	$ 2,745.0	$ 3.0	$ 62.7	$ 19.4	$ –	$ 85.1	$ 48.5	$ 36.6

(1) Dollar amounts represent gain positions on derivative instruments with individual counterparties. Net gains represent the exposure to credit loss estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts within a maturity category. Within each maturity category, contracts in a loss position are netted against contracts in a gain position with the same counterparty. If the net position within a maturity category with a particular counterparty is a loss, no amount is reported.

(2) Represents the cumulative impact of netting gains and losses where the result of the netting is negative within a maturity category with the same counterparty.

(3) Collateral held consisted of $12.8 million in cash and $35.7 million in investment securities.

In cases where we would owe the counterparty on early termination of the derivative, credit risk is not created and therefore is excluded from the table. As of December 31, 2011, AgBank does not owe any counterparties, so no counterparties have exposure to us. No collateral was required to be posted by us at December 31, 2011, 2010 or 2009.

OTHER RISKS

Structural Risk

Structural risk exists from the fact that the Bank, along with its affiliated Associations, are part of the Farm Credit System. At December 31, 2011, the System was comprised of five Banks and 84 Associations that were cooperatively owned, directly or indirectly, by their borrowers. Due to the merger of CoBank and AgBank, at January 1, 2012 there are four System Banks in 2012. As System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. Further, there is structural risk in that only the System Banks are jointly and severally liable for payments of Systemwide Debt Securities. If a System Bank defaults on payments of Systemwide debt obligations, the assets of the Farm Credit System Insurance Corporation (FCSIC) would be utilized until depleted. Then, under joint and several liability, the non-defaulting System Banks would be called upon to fulfill any remaining obligations to the extent of their available eligible collateral. Total Systemwide debt at December 31, 2011 was $184.78 billion. The assets of FCSIC were $3.39 billion. Refer to Note 1C of the Notes to Combined Financial Statements for further information on the FCSIC. Although capital at the Association level reduces a Bank's credit exposure with respect to its direct loans to its affiliated Associations, this capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

Several levels of discipline and protection are in place to mitigate the risk of joint and several liability, including two integrated contractual agreements - the Amended and Restated Contractual Interbank Performance Agreement (CIPA), and the Second Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score is calculated that measures the financial condition and performance of each District using various ratios that take into account capital, asset quality, earnings, interest rate risk and liquidity. Based on these measures, the CIPA establishes an agreed-upon minimum standard of financial condition and performance that each District must achieve and maintain. Periodically, the ratios in the CIPA model are reviewed, with the assistance of an independent party, to take into consideration current performance standards in the financial services industry. The CIPA also prescribes monetary penalties which are applied if the minimum performance standard is not met. The MAA establishes criteria and procedures for the Banks to provide certain additional information and, under specified circumstances, for restricting or prohibiting an individual Bank's participation in issuances of System Debt Securities. Banks must maintain sufficient collateral and other financial performance ratios as a condition for participation in those issuances. The MAA was designed for the early identification and resolution of individual Bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions of participation for each Bank's participation in each issuance of Systemwide Debt Securities. As required by the MAA, the Banks and the Funding Corporation undertake a periodic formal review of the MAA to consider whether any amendments are appropriate. In connection with the most recent review, the Banks and the Funding Corporation agreed to enter into the Second Amended and

Restated MAA. This revised MAA retains the same general framework and most of the provisions of the current MAA. An important change requires the Banks to maintain a net collateral ratio of at least 50 basis points greater than the regulatory minimum. The FCA approved the revised MAA and the Second Amended and Restated MAA became effective as of January 1, 2012. Beginning in 2012, the current minimum net collateral ratio is 104.5%.

During the three years ended December 31, 2011, AgBank significantly exceeded the minimum standards required by the CIPA, and was in compliance with all aspects of the MAA.

Operational Risk

Operational risk relates to the risk of loss resulting from inadequate or failed processes or systems, human error or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the District. The Bank and Associations are required, by regulation, to adopt internal control policies that provide adequate direction to the institution in establishing effective control over, and accountability for, operations, programs and resources.

By FCA regulation, all District institutions are required to develop, maintain, and annually test business continuity plans. These plans enable mission critical systems and functions to be resumed in the event of a disruption. Effective business continuity planning should minimize disruptions of service to the institution and its customers, ensure timely resumption of operations, and limit financial loss.

Political Risk

We are an instrumentality of the federal government and are intended to further governmental policy concerning the extension of credit to agriculture and rural America. We may be directly affected by federal legislation through changes to the Farm Credit Act, or indirectly, through such legislation as agricultural appropriations bills. Political risk to the System is the risk of reduction or loss of support for the System or agriculture by the U.S. government.

The System manages political risk through The Farm Credit Council (Council), which is a full-service, federated trade association. The Council represents the System before Congress, the Executive Branch, and others. The Council involves System directors and executives to develop System positions and policies and works to provide input on federal legislation and other government actions that impact the System. In addition to the Council, our District has its own District Council, which is a member of the Council. Our District Council represented the interests of AgBank and the 26 Associations on a local and state level, as well as participating with the Council on a federal level.

Financial Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law in July 2010. The System's regulatory structure remains unchanged and the System will not be subject to the new regulatory oversight authorities created by the new law. However, the new law contains mandatory derivatives clearing requirements that may ultimately be applicable to the Bank and other System entities. This and other requirements of the Dodd-Frank Act have the potential of making derivative transactions more costly and less attractive as risk management tools for the Bank and thus may impact our funding strategies.

GOVERNANCE

Board of Directors

Prior to the merger with CoBank, AgBank had a board of directors that provided direction and oversaw the management of AgBank. AgVantis and each Association have a separate board of directors that provides direction and oversees the management of the institution. Each board of directors is comprised of directors elected by the stockholders and at least one non-affiliated director appointed by the stockholder elected directors with the exception of AgVantis whose appointed director is a director of an affiliated Association. Each board of directors represents the interests of the stockholders of their particular institution. Each board performs the following functions, among others:

- selects, evaluates and compensates the chief executive officer;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the operations;
- directs management on significant issues; and,
- oversees the financial reporting process, communications with stockholders and the institution's legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in the entity's best interest. All our directors are independent from the perspective that no one from management or staff serves as Board members. However, we are financial services cooperatives, and the Farm Credit Act and FCA Regulations require that elected directors have a loan relationship with an affiliated Association. No AgBank directors had a loan relationship with AgBank.

The elected directors have a vested interest in ensuring their institution remains strong and successful. However, an Association borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, some Boards have established independence criteria to ensure that an Association loan relationship does not compromise the independence. A finding of independence is required for director service on Board committees. In addition, FCA regulations require Bank approval of all Association loan actions or loan servicing actions that involve an Association or Bank director or the immediate family member of an Association or Bank director.

Audit Committee

The Boards of Directors of the Bank, AgVantis and each Association have established audit committees. Each audit committee reports to its respective board of directors. The audit committee responsibilities generally include, but are not limited to:

- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholders reports;
- the review and assessment of the impact of accounting and auditing developments on the financial statements;
- the oversight of internal and external auditors; and,
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns, regarding accounting, internal accounting controls or auditing matters.

Compensation Committee

In accordance with FCA regulations, the Boards of Directors of each of the District entities have established compensation committees. Each compensation committee reports to its respective board of directors. The compensation committee responsibilities include reviewing the compensation policies and plans for senior officers and employees and approving the overall compensation program for senior officers.

Code of Ethics

All directors and employees of the various institutions are responsible for maintaining the highest of standards in conducting our business. In that regard, each institution has established a Code of Ethics for the Chief Executive Officer, Chief Financial Officer, and certain other senior financial professionals who are involved, directly or indirectly, with the preparation of financial statements and the maintenance of financial records supporting the financial statements. These Codes of Ethics supplement each institution's Standards of Conduct Policies for Directors and Employees. Annually, each employee and director files a written and signed disclosure statement as required under the Standards of Conduct Policies. Likewise, the Chief Executive Officer, Chief Financial Officer and certain other senior financial professionals certify compliance with the institution's Code of Ethics on an annual basis.

Complaints Regarding Accounting, Internal Accounting Controls and Auditing Matters

Programs are maintained for employee complaints related to accounting, financial reporting, internal accounting controls, or auditing matters. These programs allow employees to submit concerns regarding accounting, financial reporting, internal accounting controls, fraud, or auditing matters without the fear of reprisal, retaliation or adverse action being taken against any employee who, in good faith, reports or assists in the investigation of a violation or suspected violation, or who makes an inquiry about the appropriateness of an anticipated or actual course of action.

FORWARD-LOOKING INFORMATION

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;

- weather, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and/or the Farm Credit System; and,
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our combined financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying combined financial statements. The development and selection of critical accounting policies, and the related disclosures, have been reviewed with the Audit Committees of the respective Boards of Directors. A summary of critical policies relating to determination of the allowance for loan losses, valuation of certain financial instruments, accounting for hedging activities and assumptions regarding pension expense follows.

Allowance for Loan Losses

The allowance for loan losses is management's best estimate of the amount of probable loan losses existing in and inherent in the loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. We determine the allowance for loan losses based on a regular evaluation of each loan portfolio, which generally considers recent historical charge-off experience adjusted for relevant factors.

Loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, geographic, industry and other factors.

Changes in the factors we consider in the evaluation of losses in the loan portfolios could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. See Note 3 to the accompanying combined financial statements for detailed information regarding the allowance for loan losses.

Valuation of Certain Financial Instruments

We apply various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the items being valued.

Our investment securities that are classified as "available-for-sale" are reported at their fair value based on estimated market prices. Changes in value are recorded in accumulated other comprehensive income. Most securities are valued by an independent third party provider. However, valuing certain investments requires the use of cash flow models which are sensitive to the timing and amount of cash flow.

The fair values of derivatives are an estimate based on the value at which each financial instrument could be currently exchanged or settled between willing parties. Changes in the fair value of derivatives are recorded in accumulated other comprehensive income or current period earnings depending on the type of derivative and whether it qualifies for hedge accounting.

We utilize significant estimates and assumptions to value financial instruments for which an observable active market does not exist. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, prepayment rates, cash flows, default rates, costs of servicing and liquidation values. Changes in the economy and the use of different assumptions could produce significantly different results, which could have material positive or negative effects on market values and on our results of operations. See Notes 15 and 16 to the accompanying combined financial statements for detailed information regarding valuation of certain financial instruments.

Accounting for Hedging Activity

We use derivatives in our hedging strategies. Accounting for hedging activities requires significant judgment and interpretation in the application of very complex accounting principles. Judgments involve, but are not limited to, the determination of whether a financial instrument or other contract meets the definition of a derivative under GAAP, and the applicable hedge criteria, including whether the derivatives used in hedging transactions have been, and are expected to be, highly effective as hedges. See Note 14 to the accompanying combined financial statements for detailed information regarding derivatives.

Pension Plans

We currently have employees and retirees covered by two separate defined benefit retirement plans. A significant number of our employees are covered under one or the other of these pension plans. These plans are non-contributory and benefits are based on compensation and years of service. We also have certain employees covered by a District-wide nonqualified pension restoration defined benefit plan. We include pension expense for all plans as part of employee benefits expense. We recognize an adjustment to accumulated other comprehensive loss for the unfunded status and the unamortized actuarial losses and prior service costs related to the plans, in addition to a liability for obligations related to the plans. The accumulated other comprehensive loss, pension liability and pension expense are determined by actuarial evaluations based on assumptions that are evaluated annually as of December 31, the measurement date for our defined benefit pension plans. The most significant assumptions are the expected long-term rate of return on the plans' assets and the discount rate used to determine the present value of pension obligations. We have established current year assumptions related to the accounting for the defined benefit plans based on our review of current market conditions and our view of anticipated longer-term market conditions. Pension expense and the assumptions used in the calculation are presented in Note 10 to the accompanying combined financial statements.

CUSTOMER PRIVACY

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations and our Standards of Conduct Policies specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.

Report of Management

The combined financial statements of U.S. AgBank, FCB (AgBank), affiliated Associations and AgVantis, Inc. (AgVantis) are prepared by management, who are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The combined financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and in the opinion of management, fairly present the combined financial condition of AgBank, the affiliated Associations, and AgVantis. Other financial information included in the 2011 Annual Report is consistent with that in the combined financial statements.

To meet its responsibility for reliable financial information, management depends on AgBank's, Associations' and AgVantis' accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, the internal audit staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The combined financial statements are audited by PricewaterhouseCoopers LLP, independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. AgBank, Associations, and AgVantis are also examined by the Farm Credit Administration.

On January 1, 2012, AgBank and CoBank, ACB (CoBank), another bank in the Farm Credit System, merged. The merged bank will continue to do business under the CoBank name. Robert B. Engel, CoBank's president and chief executive officer, is president and chief executive of the merged bank.

The Audit Committee of the AgBank board of directors had overall responsibility for AgBank's system of internal control and financial reporting. The Audit Committee consulted regularly with management and met periodically with the independent auditors and internal auditors to review the scope and results of their work. The independent auditors and internal auditors had direct access to the Audit Committee.

The undersigned certify that we have reviewed the U.S. AgBank District 2011 Annual Report; that it has been prepared under the oversight of the Audit Committee of AgBank and subsequent to the merger, the Audit Committee of CoBank 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.

John Eisenhut
Chairman of the Board
U.S. AgBank, FCB

Darryl W. Rhodes
President and Chief Executive Officer
U.S. AgBank, FCB

David D. Janish
Senior Vice President-Finance
U.S. AgBank, FCB

March 15, 2012

Audit Committee Report

The 2011 Audit Committee (Committee) included seven members from the Board of Directors of U.S. AgBank, FCB (AgBank). In 2011, ten Committee meetings were held. The Committee oversaw the scope of AgBank's internal audit program, the independence of the outside auditors, the adequacy of AgBank's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as AgBank's independent auditor for 2011.

The following table sets forth the aggregate fees for professional services rendered for the District by its independent auditor PricewaterhouseCoopers, LLP for the years ended December 31, 2011, 2010 and 2009:

(dollars in thousands)	**2011**	2010	2009
Audit	**$ 1,522**	$ 1,479	$ 1,329
Tax	**161**	158	157
All Other	**83**	–	135
Total	**$ 1,766**	$ 1,637	$ 1,621

Audit fees were for professional services rendered for the audits of District entities. Tax fees for most Associations were for services related to tax compliance, including the preparation of tax returns and claims for refunds, and tax planning and tax advice. The All Other fees in 2011 were related to the Bank merger and in 2009 were related to an Association merger.

Management is responsible for AgBank's internal controls and the preparation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the District's combined financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

On January 1, 2012, AgBank merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB (CoBank), another bank in the Farm Credit System. The merged bank will continue to do business under the CoBank name. Robert B. Engel, CoBank's president and chief executive officer, is president and chief executive of the merged bank.

The AgBank Committee reviewed and discussed the District's 2011 Quarterly Reports with management and PwC. Both PwC and AgBank's internal auditors directly provided reports on significant matters to the Committee. The CoBank Audit Committee (CoBank Committee) reviewed and discussed the District's Annual Report including audited combined financial statements for the year ended December 31, 2011 (the "Audited Financial Statements") with management and PwC. The CoBank Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114, (The Auditor's Communication with Those Charged with Governance), and PwC directly provided reports on significant matters to the CoBank Committee.

The CoBank Committee received the written disclosures and the letter from PwC in accordance with Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees), and discussed with PwC its independence from AgBank District entities. The CoBank Committee also reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence. The CoBank Committee has discussed with management and PwC such other matters and received such assurances from them as the CoBank Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the CoBank Committee recommended that the CoBank Board of Directors include the Audited Financial Statements in the AgBank District Annual Report to Shareholders for the year ended December 31, 2011.

Members of the CoBank Audit Committee

Barry M. Sabloff *(Chairman)*
Ronald J. Rahjes *(Vice Chairman)*
Wesley D. Brantley
J. Scott Markham
Gary A. Miller
David L. Reinders
Donnell Spencer
David V. Vanni

pwc

Report of Independent Auditors

To the Boards of Directors and Shareholders
of CoBank, ACB, and former U.S. AgBank, FCB,
District Associations, and AgVantis, Inc.

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

As stated in Note 20, on January 1, 2012, U.S. AgBank, FCB merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB, another Farm Credit Bank.

PricewaterhouseCoopers LLP

March 15, 2012

PricewaterhouseCoopers LLP, 1100 Walnut Suite 1300 Kansas City MO 64106
T: (816) 472 7921, F: (813) 329 7730, www.pwc.com/us

Combined Statement of Condition

U.S. AgBank District

(Dollars in thousands)

	December 31		
	2011	2010	2009
ASSETS			
Loans	**$ 24,344,879**	$ 24,307,238	$ 23,945,657
Less: Allowance for loan losses	**111,436**	118,557	112,242
Net loans	**24,233,443**	24,188,681	23,833,415
Cash	**353,287**	330,341	255,927
Investment securities	**5,207,512**	5,095,139	5,358,703
Accrued interest receivable	**257,601**	266,117	290,715
Other property owned	**88,642**	115,693	57,686
Premises and equipment, net	**142,483**	134,880	130,072
Derivative assets	**78,570**	78,218	67,989
Other assets	**177,183**	124,029	152,807
Total assets	**$ 30,538,721**	$ 30,333,098	$ 30,147,314
LIABILITIES			
Systemwide debt securities	**$ 23,601,900**	$ 23,881,678	$ 24,229,005
Other bonds and notes	**955,509**	804,248	793,186
Accrued interest payable	**81,537**	96,300	130,384
Patronage refunds payable	**139,360**	108,837	70,730
Derivative liabilities	**–**	2,938	1,299
Other liabilities	**357,568**	270,456	308,122
Total liabilities	**25,135,874**	25,164,457	25,532,726
Commitments and Contingencies (Note 13)			
SHAREHOLDERS' EQUITY			
Protected stock	**$ 177**	$ 265	$ 327
Preferred stock	**543,388**	543,192	486,360
Stock and participation certificates	**38,257**	38,646	38,910
Unallocated retained earnings	**5,060,129**	4,717,655	4,339,177
Additional paid in capital	**206,949**	206,226	206,226
Accumulated other comprehensive income/(loss), net of tax	**(446,053)**	(337,343)	(456,412)
Total shareholders' equity	**5,402,847**	5,168,641	4,614,588
Total liabilities and shareholders' equity	**$ 30,538,721**	$ 30,333,098	$ 30,147,314

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

Combined Statement of Income

U.S. AgBank District
(Dollars in thousands)

	For the Year Ended December 31					
		2011		2010		2009
INTEREST INCOME						
Loans		**$ 1,120,244**		$ 1,165,278		$ 1,161,141
Investment securities		**64,997**		92,220		168,072
Total interest income		**1,185,241**		1,257,498		1,329,213
INTEREST EXPENSE		**368,356**		457,145		605,034
Net interest income		**816,885**		800,353		724,179
Provision for loan losses		**23,243**		51,254		86,869
Net interest income after provision for loan losses		**793,642**		749,099		637,310
NONINTEREST INCOME						
Loan and prepayment fees		**37,885**		33,523		30,229
Financially related services income		**10,211**		10,195		12,412
Mineral income		**18,411**		11,630		6,683
Insurance fund distribution		**–**		29,783		–
Other noninterest income		**24,923**		23,294		22,186
Total noninterest income		**91,430**		108,425		71,510
NONINTEREST EXPENSE						
Salaries and employee benefits		**204,428**		200,383		191,181
Occupancy and equipment		**19,878**		18,644		19,576
Other operating expenses		**74,223**		69,213		65,007
Supervisory expense		**10,382**		9,820		8,733
Merger-related costs		**6,953**		1,193		422
Losses on other property owned, net		**12,819**		5,429		6,673
Insurance fund premium		**12,674**		11,056		46,915
Concession expense write-off on called debt		**3,952**		10,112		7,887
Loss on sale of investment securities		**261**		666		2,600
Gain on early extinguishment of debt		**(102)**		–		–
Total other-than-temporary impairment loss	**87,863**		32,657		112,964	
Portion of loss recognized in other comprehensive income	**(64,552)**		(16,600)		(76,549)	
Net impairment loss recognized in earnings		**23,311**		16,057		36,415
Total noninterest expense		**368,779**		342,573		385,409
Income before income taxes		**516,293**		514,951		323,411
Provision for/(Benefit from) income taxes		**8,149**		3,508		(916)
Net income		**$ 508,144**		$ 511,443		$ 324,327

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

Combined Statement of Changes in Shareholders' Equity

U.S. AgBank District
(Dollars in thousands)

	Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings Unallocated	Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2008	$ 471,293	$ 39,391	$ 4,316,386	$ –	$ (340,885)	$ 4,486,185
Cumulative effect adjustment for adoption of new accounting principal for investment securities			1,993		(1,993)	–
Balance at January 1, 2009	471,293	39,391	4,318,379	–	(342,878)	4,486,185
Comprehensive Income						
Net income			324,327			
Change in unrealized losses on investments available-for-sale, net					(164,039)	
Net impairment loss recognized in earnings					36,415	
Realized loss on sold investments available-for-sale					2,600	
Change in unrealized losses on derivatives					8,717	
Change in retirement obligation					2,139	
Total comprehensive income						210,159
Stock and participation certificates issued	393,643	4,052				397,695
Stock and participation certificates retired	(378,685)	(4,206)				(382,891)
Impact of Association merger						
Equity issued upon Association merger		3,520		206,226		209,746
Equity retired upon Association merger		(3,520)	(207,459)		634	(210,345)
Cash patronage refunds			(78,240)			(78,240)
Preferred stock cash dividends			(17,721)			(17,721)
Stock dividends	109		(109)			–
Balance at December 31, 2009	486,360	39,237	4,339,177	206,226	(456,412)	4,614,588
Comprehensive Income						
Net income			511,443			
Change in unrealized losses on investments available-for-sale, net					107,381	
Net impairment loss recognized in earnings					16,057	
Realized loss on sold investments available-for-sale					666	
Change in unrealized losses on derivatives					(6,523)	
Change in retirement obligation					1,488	
Total comprehensive income						630,512
Stock and participation certificates issued	372,474	3,605				376,079
Stock and participation certificates retired	(315,762)	(3,931)				(319,693)
Cash patronage refunds			(114,068)			(114,068)
Preferred stock cash dividends			(18,777)			(18,777)
Stock dividends	120		(120)			–
Balance at December 31, 2010	$ 543,192	$ 38,911	$ 4,717,655	$ 206,226	$ (337,343)	$ 5,168,641

(continued)

COMBINED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (continued from previous page)

U.S. AgBank District
(Dollars in thousands)

	Preferred Stock	Capital Stock and Capital Participation Certificates	Retained Earnings Unallocated	Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2010	543,192	38,911	4,717,655	206,226	(337,343)	5,168,641
Comprehensive Income						
Net income			508,144			
Change in unrealized losses on investments available-for-sale, net					(67,473)	
Net impairment loss recognized in earnings					23,311	
Realized loss on sold investments available-for-sale					261	
Change in unrealized losses on derivatives					(6,888)	
Change in retirement obligation					(57,921)	
Total comprehensive income						399,434
Stock and participation certificates issued	339,874	4,035				343,909
Stock and participation certificates retired	(339,836)	(4,512)				(344,348)
Impact of Association merger						
Equity issued upon Association merger				723		723
Equity retired upon Association merger			(723)			(723)
Cash patronage refunds			(146,099)			(146,099)
Preferred stock cash dividends			(18,690)			(18,690)
Stock dividends	158		(158)			–
Balance at December 31, 2011	**$ 543,388**	**$ 38,434**	**$ 5,060,129**	**$ 206,949**	**$ (446,053)**	**$ 5,402,847**

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

COMBINED STATEMENT OF CASH FLOWS

U.S. AgBank District

(Dollars in thousands)

	For the Year Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 508,144**	$ 511,443	$ 324,327
Adjustments to reconcile net income to cash provided by/(used in) operating activities:			
Depreciation on premises and equipment	**11,218**	10,206	9,822
Provision for loan losses	**23,243**	51,254	86,869
Amortization of premium on debt instruments	**(8,109)**	(5,091)	(8,613)
Amortization of premium/(discount) on investments and acquired loans	**4,677**	(6,508)	(37,028)
Loss on impaired investments	**23,311**	16,057	36,415
Loss from sale of investment securities, net	**261**	666	2,600
Net write down and sales of other property owned	**13,181**	8,429	6,675
Gains on the sale of premises and equipment	**(2,258)**	(182)	(754)
Derivative hedging activities	**(6,668)**	(1,025)	(4,865)
Gain on early extinguishment of debt	**(102)**	–	–
Change in assets and liabilities			
Decrease in accrued interest receivable	**6,423**	20,354	12,695
(Increase)/Decrease in other assets	**(53,154)**	19,778	(35,234)
Decrease in accrued interest payable	**(14,655)**	(33,742)	(28,811)
Increase/(Decrease) in other liabilities	**36,064**	(36,209)	6,547
Total adjustments	**33,432**	43,987	46,318
Net cash provided by operating activities	**541,576**	555,430	370,645
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loan principal disbursed, net	**(90,229)**	(463,806)	(921,388)
Investments available-for-sale			
Purchases	**(1,712,273)**	(1,645,778)	(2,294,157)
Proceeds from maturities and principal payments	**1,494,826**	1,929,371	2,477,196
Proceeds from sales	**672**	59,494	132,006
Investments held-to-maturity			
Proceeds from maturities and principal payments	**36,492**	34,403	40,784
Proceeds from sale of investment in Farmer Mac	**–**	9,000	–
Expenditures on premises and equipment, net	**(16,563)**	(14,832)	(17,453)
Proceeds/(Loss) from sales of other property owned	**31,848**	(10,466)	1,091
Decrease/(Increase) in notes receivable	**6**	1,279	(1,277)
Net cash used in investment activities	**(255,221)**	(101,335)	(583,198)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Systemwide debt (retired)/issued, net	**(278,577)**	(357,666)	280,553
Increase in other bonds and notes	**156,747**	16,335	15,699
Patronage distributions paid	**(115,577)**	(75,959)	(102,736)
Cash dividends paid	**(25,563)**	(18,777)	(17,721)
Stock issued	**343,909**	376,079	397,695
Stock retired	**(344,348)**	(319,693)	(382,891)
Net cash (used in)/provided by financing activities	**(263,409)**	(379,681)	190,599
Net increase/(decrease) in cash	**22,946**	74,414	(21,954)
Cash at beginning of period	**330,341**	255,927	277,881
Cash at end of period	**$ 353,287**	$ 330,341	$ 255,927

(continued)

COMBINED STATEMENT OF CASH FLOWS (continued from previous page)

U.S. AgBank District
(Dollars in thousands)

	For the Year Ended December 31		
	2011	2010	2009
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Financed sales of other property owned	**$ 29,145**	$ 7,238	$ 465
Loan amounts transferred to other property owned	**47,123**	63,208	62,047
Loan amounts charged off	**32,262**	50,716	54,081
Patronage refunds transferred to other liabilities from:			
Unallocated retained earnings	**147,124**	114,353	78,240
Equity retired upon Association merger	**723**	–	210,345
Preferred stock cash dividends declared	**18,690**	18,777	17,721
Stock dividends declared	**158**	120	109
Adjustment for adoption of new accounting principle for investment securities	**–**	–	1,993
Change in unrealized losses in other comprehensive income	**(108,710)**	119,069	(116,161)
SUPPLEMENTAL INFORMATION			
Interest paid	**383,865**	490,568	651,538
Income taxes paid	**2,939**	4,180	2,053

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

U.S. AgBank District

(Dollars in thousands, except as noted)

NOTE 1 - ORGANIZATION AND OPERATIONS

A. System and District Organization

The Farm Credit System (the System) is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. The System was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987.

As required by the Farm Credit Act, the System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes. Through a nationwide network of locally owned cooperatives, the System makes credit available in all 50 states and the Commonwealth of Puerto Rico, which allows for both geographic and agricultural sector diversification.

The System institutions may also provide a variety of services to their borrowers, including credit and mortgage life or disability insurance, various types of crop insurance, estate planning, record keeping services, tax planning and preparation, and consulting. In addition, some System institutions provide leasing and related services to their customers.

As of December 31, 2011, the nation was served by four Farm Credit Banks (FCBs), each of which has specific lending authorities within its chartered territory, and one Agricultural Credit Bank (ACB) which has nationwide lending authorities. The ACB also has lending authorities of an FCB within a limited chartered territory. Each FCB and the ACB provides funding for Agricultural Credit Associations (ACAs) and/or Federal Land Credit Associations (FLCAs), which are collectively referred to as "Associations."

The System Banks jointly own several service organizations which were created to provide a variety of services for the System. These may be accounted for using the cost or equity method. These service organizations are dependent on the Banks for financial support and include:

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) - provides for the issuance, marketing and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- FCS Building Association - leases premises and other fixed assets to the Farm Credit Administration (FCA), as required by the Farm Credit Act.
- Farm Credit System Association Captive Insurance Company - provides insurance services to its member organizations as a reciprocal insurer.

In addition, the Farm Credit Council, a full-service federated trade association, represents the System before Congress, the Executive Branch and others.

Effective January 1, 2012, U.S. AgBank, FCB (AgBank) merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB (CoBank) one of the other Banks in the System. In December 2010, each Board of Directors unanimously approved a Letter of Intent to merge. In March 2011, following unanimous votes by the boards of both banks, a merger application was submitted to the Farm Credit Administration (FCA), the Farm Credit System regulator. In June 2011, the FCA granted preliminary approval of the merger, subject to certain conditions. In September 2011, AgBank and CoBank announced that their voting shareholders approved the proposed plan of merger between the two banks. Final approval from the FCA was received in December 2011. The merged bank serves as a wholesale provider of financing to Farm Credit Associations that provide credit and financial services to more than 70,000 farmers, ranchers, and other rural borrowers in 23 states. It also serves as a direct lender to agribusinesses and rural electric, water and communications service providers throughout the country. The merged bank continues to do business under the CoBank name and is headquartered outside Denver, Colorado. Robert B. Engel, CoBank's president and chief executive officer, is the president and chief executive of the merged bank. CoBank had total assets of $63.29 billion and capital of $4.90 billion at December 31, 2011. As a result of the merger, CoBank became the funding bank of the former AgBank District Associations beginning January 1, 2012. For purposes throughout this disclosure, references to "the Bank" will be used for AgBank from an historical perspective or CoBank from a current and future perspective.

AgBank was chartered to provide credit and credit related services in the states of Arizona, California, Colorado, Hawaii, Kansas, Nevada, New Mexico, Oklahoma, Utah, southeastern Idaho, and the far western edge of Wyoming. AgBank, its related Associations, and AgVantis, Inc. (AgVantis) are referred to as the "District" in this report. As of December 31, 2011, the District had 2 FLCAs and 24 ACA parent associations. Each ACA has two wholly owned subsidiaries (a FLCA subsidiary and a Production Credit Association (PCA) subsidiary). The Associations and an other financing institution (OFI) jointly owned AgBank.

AgBank and/or certain of its affiliated Associations jointly owned service organizations created to provide technology services.

- AgVantis is owned by and provides technology and other operational services to eighteen Associations. In addition, technical and systems support for AgBank was outsourced to AgVantis. AgVantis financial information is included in the District data; however, activity occurring between AgVantis and AgBank or the Associations has been eliminated in combination.
- Financial Partners Inc. is a technology service provider jointly owned by two Associations in conjunction with other System entities that were not part of the AgBank District. This investment is accounted for using the cost method.

B. Farm Credit Administration

The FCA is delegated authority by Congress to regulate System institutions. FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

C. Farm Credit System Insurance Corporation

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used prior to invoking the joint and several liability of the Banks (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank has been required to pay premiums, which may be passed on to the Associations, into the Insurance Fund based on District annual average outstanding insured debt adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. Premiums are required until the assets in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate Insured Debt or such other percentage of the Insured Debt as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions. Financial responsibility for the AgBank premium assessments was allocated among AgBank and all District Associations based on the Associations' average adjusted note payable to AgBank.

D. Intra-District Restructurings

On January 1, 2012, Farm Credit of the Mountain Plains, ACA headquartered in Greeley, Colorado merged into American AgCredit, ACA headquartered in Santa Rosa, California. The merged Association uses the American AgCredit, ACA name and is headquartered in Santa Rosa, California. The primary reason to merge was based on a determination that the combined organization should be financially and operationally stronger than either Association on a stand-alone basis.

Effective as of the close of business November 30, 2009, Farm Credit of the Heartland, ACA headquartered in Wichita, Kansas merged into American AgCredit, ACA headquartered in Santa Rosa, California.

According to Financial Accounting Standards Board (FASB) guidance, the acquisition method of accounting is required for mergers of cooperatives occurring after January 1, 2009. As the accounting acquirer, American AgCredit accounted for the transaction by using its historical information and accounting policies and recording the identifiable assets and liabilities of Heartland as of the acquisition date of November 30, 2009 at their respective fair values. The Associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of any other equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and their 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 stock in Heartland that were converted to shares of American AgCredit had identical rights and attributes. For this reason, the conversion of stock pursuant to the merger occurred at a one-for-one exchange ratio. Management believes that because the stock in each Association is fixed in value, the 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, American AgCredit identified and estimated the acquisition date fair value of the equity interests of Heartland instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from Heartland, were measured based on various estimates using assumptions that American AgCredit management believes were reasonable utilizing information available at the merger date. 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 American AgCredit management determined goodwill was immaterial and therefore recorded no goodwill. The excess value received by American AgCredit from Heartland over the par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital.

The following table summarizes the fair values of the identifiable assets acquired and liabilities American AgCredit assumed from Heartland as of November 30, 2009.

	Fair Value	Contractual Amount	Contractual amounts not expected to be collected
Loans	$ 934,059	$ 922,437	$ 9,027
Total Assets	$ 984,801		
Notes Payable	$ 750,284	$ 729,036	
Total Liabilities	$ 775,055		
Net Assets Acquired	$ 209,746		

As Heartland (the acquired entity) was an affiliated Association of the District prior to the business combination with American AgCredit, Heartland's financial position and results of operations are included in the combined District financial statements for 2009 through the merger date, as well as for the years ending December 31, 2008 and 2007. Heartland's results of operations for the pre-merger periods were as follows:

	Jan – Nov 2009	2008	2007
Net interest income	$ 19,537	$ 26,800	$ 26,093
Provision for loan losses	9,096	6,407	897
Noninterest income	4,952	8,684	6,624
Noninterest expense	14,780	13,389	11,927
Provision for/(Benefit from) income taxes	46	(40)	38
Net income	$ 567	$ 15,728	$ 19,855

E. Operations

Although the System Banks (Banks) and Associations are not commonly owned or controlled, they are financially and operationally interdependent. The financial interdependence of the Banks is a result of the statutory joint and several liability of the Banks for all Systemwide debt. The interdependence between the Banks and Associations results, in part, from the Banks serving as the intermediary between the financial markets and the retail lending activities of their affiliated Associations. The Banks are the primary source of funding and have some oversight responsibilities related to certain activities of their affiliated Associations. Banks raise funds principally through the sale of consolidated Systemwide bonds and notes to the public, through the Funding Corporation. District Associations borrow the majority of their funds from their related Bank. Banks and Associations are not authorized to accept deposits and Associations cannot borrow from other financial institutions without the approval of their affiliated Bank. As a result, loans made by the Associations to agricultural borrowers are substantially funded by the issuance of Systemwide Debt Securities by the Banks. The repayment of the Systemwide Debt Securities is dependent upon the ability of System borrowers to repay their loans. The Banks also obtain a portion of their funds from internally generated earnings, from the issuance of common and preferred stock and, to a lesser extent, from the issuance of subordinated debt.

The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be provided by the Bank and the affiliated Associations. The Bank and/or Associations are authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents and farm-related businesses. The Bank may also lend to financial institutions engaged in lending to eligible borrowers. The Associations also serve as intermediaries in offering term life insurance, and multi-peril crop insurance. In addition, certain Associations provide fee-based services to eligible borrowers in areas such as estate planning, financial management and fee appraisals.

ACAs borrow from the Bank to originate long-term real estate mortgage loans through the FLCA subsidiary and short- and intermediate-term loans through the PCA subsidiary. FLCAs borrow from the Bank to originate long-term real estate mortgage loans. OFIs borrow from the Bank to originate and service short- and intermediate-term loans.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the combined AgBank District conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of combined financial statements in conformity with GAAP requires the managements of the Bank, the Associations and AgVantis to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. Actual results may differ from these estimates. Significant estimates are discussed in these footnotes, as applicable. Certain amounts in prior years' combined financial statements have been reclassified to conform to the current year's financial statement presentation.

The accompanying combined financial statements include the accounts of AgBank, the Associations and AgVantis and reflect the investments in, and allocated earnings of, the service organizations in which AgBank and the Associations have partial ownership interests. All significant transactions and balances among AgBank, Associations and AgVantis have been eliminated in combination.

Recently Issued Accounting Pronouncements

In September 2011, the FASB issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan and a postretirement benefits plan other than pension, which should help financial statement users better understand the financial health of significant plans that the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2011 for public entities or for annual periods for fiscal years ending after December 15, 2012 for non-public entities. The amendments should be applied retrospectively for all prior periods presented. The adoption of this guidance will not impact financial results but will likely result in additional disclosures at the individual entity level.

In June 2011, the 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 provision 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 and 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. The adoption of this guidance will not impact the District's financial condition or results of operations, but will result in additional disclosure requirements.

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 adoption of this standard will not have a material impact on the Bank and Associations financial condition or results of operations.

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 certain 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 disclosure about troubled debt restructurings (TDR) was effective for yearend 2011.

A. Loans and Allowance for Loan Losses

Long-term real estate mortgage loans generally have original maturities ranging from 5 to 40 years. Substantially all short and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Loan origination fees and direct loan origination costs are generally capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Loans acquired in a business combination are initially recognized at fair value, and therefore, no "carryover" of the allowance for loan losses is permitted. Those loans with evidence of credit quality deterioration at purchase are required to follow guidance on "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

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 and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan contract is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred is collected in full or otherwise discharged.

A restructured loan constitutes a troubled debt restructuring if, for economic or legal reasons related to the debtor's financial difficulties, the Bank or an Association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the Bank or Association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or when circumstances indicate that collection of principal and/or interest is in doubt. Generally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

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

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

The credit risk rating methodology is a key component of the Bank's and each Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances. Management considers the following factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. Generally, for loans individually evaluated, the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

B. Cash

Cash, as included in the combined financial statements, represents cash on hand and on deposit at financial institutions.

C. Investment Securities and Federal Funds

The Bank and Associations, as permitted under FCA regulations, hold eligible investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. Investments for which the District has the intent and ability to hold to maturity are classified as investments held-to-maturity (HTM) and are carried at cost, adjusted for unamortized premiums and discounts. The majority of the District's investments are available for liquidity or for the management of short-term funds and have been classified as available-for-sale (AFS). These investments are reported at fair value and any unrealized gains and losses on investments that are not other-than-temporarily impaired are netted and reported as a separate component of shareholders' equity (accumulated other comprehensive income (losses)). Changes in the fair value of these investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If a District entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and would be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but a District entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. If the present value of cash flows expected to be collected is less than the amortized cost basis, the Bank or Association would record an additional other-than-temporary impairment and adjust the yield of the security prospectively.

Gains and losses on sales of investments available-for-sale are determined using the specific identification method. The District does not hold investments for trading purposes. Premiums and discounts on purchases of securities are amortized or accreted into interest income over the term of the respective issues.

All or a portion of the unrealized gain or loss of an available-for-sale security that is designated as a fair value hedged item must be recognized in earnings during the period of the hedge.

The Bank and Associations may also hold additional investments in accordance with mission-related investment and other investment programs, approved by the FCA. These programs allow Banks and Associations to make investments that further the System's mission to serve rural America. Mission-related and other investments are not included in the Bank's liquidity calculations and are not covered by the eligible investment limitations specified by FCA regulations. Mortgage-backed securities issued by Farmer Mac are considered other investments and are also excluded from the limitation and the Bank's liquidity calculation. Mission-related investments for which the Bank and/or an Association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts. Farmer Mac investments are classified either as held-to-maturity or available-for-sale depending on the Bank's and/or Association's ability and intent to hold to maturity.

D. Other Property Owned

Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains/(losses) on other property owned in the combined statement of income.

E. Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is generally provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are charged to operating expense, and improvements above certain thresholds are capitalized.

F. Other Assets and Other Liabilities

Other assets are comprised primarily of investments in other System institutions, accounts receivable, net deferred tax assets, trust assets for nonqualified retirement plans, and unamortized debt issuance costs. Significant components of other liabilities include pension and postretirement benefits liabilities, accounts payable and FCSIC premiums payable. The deferred tax assets and liabilities involve various management estimates and assumptions as to future taxable earnings. As of December 31, 2011, all temporary differences net to a deferred tax asset and are included in other assets.

G. Advanced Conditional Payments

The Bank and Associations are authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Unrestricted advanced conditional payments are included in other interest bearing liabilities. Restricted advanced conditional payments are primarily associated with mortgage loans, while non-restricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advanced conditional payments are not insured. The Association generally pays interest on such accounts.

H. Employee Benefit Plans

The AgBank District had two defined benefit retirement plans and participated with Farm Credit System employers from other districts in a defined contribution retirement plan. Most District employees are covered under at least one of these plans.

Certain AgBank, Association, and AgVantis employees participate in the Ninth Farm Credit District Pension Plan (Ninth Pension Plan). The Ninth Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Ninth Pension Plan was closed to new participants beginning January 1, 2007.

Certain AgBank and Association employees participate in the Eleventh Farm Credit District Employees' Retirement Plan (Eleventh Retirement Plan). The Eleventh Retirement Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Eleventh Retirement Plan was closed to employees hired after December 31, 1997.

Additionally, employees are generally eligible to participate in the Farm Credit Foundations 401(k) Plan (Foundations 401(k) Plan), a defined contribution retirement plan. The Foundations 401(k) Plan has two components. First, eligible employees may receive benefits through the employer contributions to the Plan. The amount of employer contribution is based on the employee's compensation and varies depending on whether the employee is eligible to accrue benefits in either the Ninth Pension Plan or the Eleventh Retirement Plan. Second, eligible employees may elect to defer the receipt of a portion of their compensation by making a deferral election in accordance with the provisions of Section 401(k) of the Internal Revenue Code. AgBank, AgVantis and certain Associations match a certain percentage of employee contributions. All costs for the Foundations 401(k) Plan are expensed as funded.

AgBank, AgVantis and certain Associations also participate in the Farm Credit Foundations Retiree Medical Plan (Retiree Medical Plan). These postretirement benefits (other than pension) are provided to eligible retired employees of AgBank, AgVantis and certain Associations. The anticipated costs of these benefits were accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits other than pensions (primarily healthcare benefits) to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits. Beginning in 2007, the Retiree Medical Plan was amended to continue employer subsidized benefits only for current retirees.

I. Income Taxes

AgBank, FLCAs and FLCA subsidiaries of ACA parent companies are exempt from Federal and certain other income taxes as provided in the Farm Credit Act. The ACAs and their PCA subsidiaries provide for Federal and certain other income taxes and are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code.

Associations operating as cooperatives under Subchapter T of the Internal Revenue Code can exclude from taxable income amounts distributed as qualified patronage distributions in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage distributions. Deferred taxes are recorded on 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 it is more likely than not (over 50 percent probability), based on management's estimate, the deferred tax asset will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of expected patronage programs which reduce taxable earnings.

Deferred income taxes have not been recorded by the taxable Associations on stock patronage distributions received from AgBank prior to January 1, 1993, the adoption date of FASB guidance on income taxes. Association managements' intent is to permanently invest these and other undistributed earnings in AgBank, or if converted to cash, to pass through any such earnings to Association borrowers through qualified patronage allocations.

Deferred income taxes have not been provided on AgBank's post-1992 earnings allocated to ACAs and their PCA subsidiaries to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on AgBank's post-1992 unallocated earnings.

On December 31, 2011, AgBank, in anticipation of its January 1, 2012 merger with CoBank, recapitalized and distributed attributed surplus as stock to its Association members. Deferred taxes have not been recorded by certain Associations on that distribution as their management's intent, if that stock is ever converted to cash, is to pass through any related earnings to Association borrowers through qualified patronage allocations. This transaction is eliminated in combination. See Note 8 for additional information.

J. Derivative Instruments and Hedging Activity

The Bank is party to derivative financial instruments which are used to manage interest rate risk on assets, liabilities and anticipated transactions. Derivatives are recorded at fair value and included in the combined statement of condition as derivative assets and derivative liabilities.

Changes in the fair value of derivatives are recorded in current period earnings or accumulated other comprehensive income (loss) depending on the use of the derivative and whether it qualifies for hedge accounting. For fair-value hedge transactions in which the Bank is hedging changes in the value of assets, liabilities, or firm commitments, changes in the fair value of the derivative are recorded in earnings and will generally be offset by changes in the hedged item's fair value. For cash flow hedge transactions, in which the Bank is hedging the variability of future cash flows or repricing of a variable-rate asset, liability or forecasted transaction, changes in the fair value of the derivative will generally be deferred and reported in accumulated other comprehensive income (loss). Gains and losses on derivative instruments, that are deferred and reported in accumulated other comprehensive income (loss), will be reclassified to earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recognized in current-period earnings. For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current-period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the combined statement of condition or (2) firm commitments or forecasted transactions. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions have been highly effective in offsetting changes in interest rates or in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The Bank uses regression analysis or other statistical analysis to assess the effectiveness of its hedges.

The Bank discontinues hedge accounting prospectively when it is determined that:

- a derivative is no longer effective in offsetting changes in the fair value of cash flows of a hedged item;
- the derivative expires or is sold, terminated, or exercised;
- it is no longer probable that the forecasted transaction will occur;
- a hedged firm commitment no longer meets the definition of a firm commitment; or
- management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the Bank discontinues hedge accounting for cash flow hedges, any remaining accumulated other comprehensive income (loss) is amortized into earnings over the remaining life of the original hedged item unless the hedged item is gone in which case any remaining other comprehensive income (loss) is immediately recognized in current earnings. When the Bank discontinues hedge accounting for fair value hedges, changes in the fair value of the derivative are recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank carries the derivative at its fair value on the combined statement of condition, recognizing changes in fair value in current-period earnings.

The Bank occasionally purchases a financial instrument in which a derivative instrument is "embedded." Upon purchase of the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value and designated as either a fair value or cash flow hedge. However, if the entire contract is required to be measured at fair value, with changes in fair value reported in current earnings, or if the Bank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument.

K. Minerals

The District owns mineral rights in the states of Arizona, California, Colorado, Kansas, Nevada, New Mexico, Oklahoma and Utah. These mineral rights are held at an historic cost of nominal value. Mineral income is primarily generated from royalties on natural gas and crude oil production, leasing bonuses and rental payments. Mineral income is recorded in earnings as cash is received.

L. Fair Value Measurements

The District follows FASB guidance which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value.

> Level 1 – Quoted prices in active markets for identical assets or liabilities that the District entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market. Also, included in Level 1 are assets held in trust funds, which relate to deferred compensation and supplemental retirement plans and include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded are also included in Level 1. Also included are collateral assets and liabilities at their face value plus accrued interest, as these instruments are cash balances; therefore, the fair value approximates face value.
>
> Level 2 – Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active as they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes U.S. Treasury, other U.S. Government and Federal agency mortgage-backed debt securities, corporate debt securities, and derivative contracts that are not actively traded that are held by AgBank. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities are reported in Level 2.
>
> Level 3 – Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the District entity's own assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, certain non-agency mortgage-backed debt securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

The fair value disclosures are presented in Note 15.

M. Off-Balance Sheet Credit Exposures

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

N. Merger Accounting

The FASB guidance on business combinations applies to all transactions in which an entity obtains control of one or more businesses and requires the acquirer to recognize assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date. The guidance applies to District institutions and became effective for business combinations that close on or after January 1, 2009.

For District institutions, because the stock in each Association is fixed in value, the 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 acquiring Association would identify and estimate the acquisition date fair value of the equity interests (net assets) of the acquired Association instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed, are measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. 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.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows:

		December 31	
	2011	2010	2009
Real estate mortgage	**$ 15,207,377**	$ 14,985,673	$ 14,646,114
Production and intermediate-term	**5,488,193**	5,714,880	5,835,257
Agribusiness:			
Loans to cooperatives	**402,526**	461,307	309,309
Processing and marketing	**2,034,465**	1,974,472	2,022,299
Farm related business	**517,567**	511,725	511,666
Communication	**144,002**	100,374	68,506
Energy	**212,205**	245,219	257,161
Water and waste disposal	**19,747**	18,000	18,000
International	**75,534**	76,080	66,322
Rural residential real estate	**61,415**	62,799	57,793
Lease receivables	**151,508**	120,474	129,405
Mission-related	**8,340**	3,735	3,825
OFI loans	**22,000**	32,500	20,000
Total loans	**$ 24,344,879**	$ 24,307,238	$ 23,945,657

The Bank and Associations purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information on loan participations as of December 31, 2011:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 469,213	$ 1,053,828	$ 290,416	$ 45,218	$ 759,629	$ 1,099,046
Production and intermediate term	414,449	926,784	68,642	18,017	483,091	944,801
Agribusiness:						
Loans to cooperatives	275,601	4,218	54,056	1,622	329,657	5,840
Processing and marketing	626,888	857,688	213,286	3,169	840,174	860,857
Farm related business	68,339	25,394	4,100	797	72,439	26,191
Communication	136,259	12,586	4,061	–	140,320	12,586
Energy	206,729	160	2,937	–	209,666	160
Water and waste disposal	19,381	–	366	–	19,747	–
International	87,738	–	1,678	–	89,416	–
Mission-related	–	–	3,270	–	3,270	–
Total	$ 2,304,597	$ 2,880,658	$ 642,812	$ 68,823	$ 2,947,409	$ 2,949,481

Significant sources of liquidity for the District are the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by type at December 31, 2011. Approximately 16 percent of these loans had maturities of one year or less.

	Due in 1 year or less	Due in 1 through 5 years	Due after 5 years	Total
Real estate mortgage	$ –	$ –	$ 15,207,377	$ 15,207,377
Production and intermediate-term	2,712,701	2,250,491	525,001	5,488,193
Agribusiness:				
Loans to cooperatives	190,436	55,150	156,940	402,526
Processing and marketing	611,565	660,930	761,970	2,034,465
Farm related business	82,480	186,625	248,462	517,567
Communication	100,554	24,641	18,807	144,002
Energy	73,801	19,466	118,938	212,205
Water and waste disposal	692	1,055	18,000	19,747
International	3,738	71,796	–	75,534
Rural residential real estate	–	–	61,415	61,415
Lease receivables	143,000	3,423	5,085	151,508
Mission-related	–	–	8,340	8,340
OFI loans	22,000	–	–	22,000
Total	$ 3,940,967	$ 3,273,577	$ 17,130,335	$ 24,344,879

The District's concentration of credit risk in various agricultural commodities is presented in the following table.

	December 31					
	2011		2010		2009	
Commodity/Primary Business	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Dairy farms	**$ 3,918,652**	**16.10%**	$ 4,000,745	16.46%	$ 4,079,289	17.04%
Cattle	**3,412,182**	**14.02**	3,450,828	14.20	3,406,326	14.23
Tree nuts	**2,070,104**	**8.50**	1,930,303	7.94	1,758,868	7.35
Grapes	**1,570,355**	**6.45**	1,576,224	6.48	1,554,965	6.49
Field crops	**1,405,036**	**5.77**	1,459,348	6.00	1,440,819	6.02
Farm related business services	**1,057,814**	**4.35**	938,386	3.86	907,097	3.79
Food products	**1,003,530**	**4.12**	1,073,707	4.42	1,120,238	4.68
Fruits	**899,987**	**3.70**	900,613	3.71	957,548	4.00
Vegetables	**840,298**	**3.45**	886,733	3.65	887,567	3.71
Corn	**804,218**	**3.30**	736,041	3.03	645,320	2.69
Wheat	**699,526**	**2.87**	699,657	2.88	686,897	2.87
Rural homes	**642,981**	**2.64**	636,667	2.62	631,460	2.64
Other livestock	**556,913**	**2.29**	562,482	2.31	532,236	2.22
Cash grains	**553,350**	**2.27**	486,048	2.00	456,763	1.91
Forestry	**448,097**	**1.84**	409,752	1.69	477,369	1.99
Horticulture specialties	**438,040**	**1.80**	456,837	1.88	503,380	2.10
General farm	**420,905**	**1.73**	399,443	1.64	383,481	1.60
Rural utilities	**351,388**	**1.44**	365,647	1.50	340,422	1.42
Sugarcane, sugar beets and potatoes	**345,384**	**1.42**	361,495	1.49	370,732	1.55
Logging and wood products	**327,230**	**1.34**	358,877	1.48	382,467	1.60
Rice	**314,911**	**1.29**	302,931	1.25	271,516	1.13
Cotton	**289,108**	**1.19**	290,691	1.20	285,530	1.19
Citrus fruits	**255,422**	**1.05**	263,343	1.08	272,491	1.14
Farm supplies	**237,594**	**0.98**	263,319	1.08	179,115	0.75
Poultry	**203,512**	**0.84**	224,315	0.92	204,020	0.85
Soybeans	**127,601**	**0.52**	124,479	0.51	115,824	0.48
Biofuel	**105,032**	**0.43**	136,207	0.56	153,547	0.64
Hogs	**84,499**	**0.35**	110,082	0.45	118,853	0.50
Other	**961,210**	**3.95**	902,038	3.71	821,517	3.42
Total	**$ 24,344,879**	**100.00%**	$ 24,307,238	100.00%	$ 23,945,657	100.00%

While the percentages shown in the previous table represent the relative amounts of the District's potential credit risk as it relates to recorded loan principal, a substantial portion of the District's loans are collateralized. Accordingly, the District's exposure to credit loss associated with lending activities is considerably less than the recorded loan balances. An estimate of the current loss exposure is indicated in the combined financial statements in the allowance for loan losses.

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

Certain District Associations have obtained credit enhancements by entering into Standby Commitment to Purchase Agreements (Agreements) with the Federal Agricultural Mortgage Corporation (Farmer Mac), covering loans with principal balance outstanding of $697.8 million, $639.0 million and $682.6 million at December 31, 2011, 2010 and 2009, respectively. Under the Agreements, Farmer Mac agrees to purchase loans from the Associations in the event of default (typically four months past due), subject to certain conditions, thereby mitigating the risk of loss from covered loans. In return, the Associations pay Farmer Mac commitment fees based on the outstanding balance of loans covered by the Agreements. Such fees, totaling $2.8 million for 2011, $2.9 million for 2010 and $2.8 million for 2009 are reflected in noninterest expense. Loans covered under these Agreements are considered non-adversely classified for purposes of reporting credit quality and receive favorable regulatory capital treatment.

One credit quality indicator utilized by the Bank and Associations is the FCA 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 classified under the Uniform Loan Classification system as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

	2011	2010	2009
Real estate mortgage			
Acceptable	**92.40%**	90.23%	93.08%
OAEM	**3.93**	5.51	3.31
Substandard	**3.67**	4.26	3.60
Doubtful	–	–	0.01
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**89.31%**	87.06%	86.81%
OAEM	**6.03**	7.44	6.83
Substandard	**4.63**	5.48	6.28
Doubtful	**0.03**	0.02	0.08
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**93.16%**	91.33%	88.40%
OAEM	**3.79**	5.66	6.91
Substandard	**3.05**	2.79	4.54
Doubtful	–	0.22	0.15
Total	**100.00%**	100.00%	100.00%
Energy			
Acceptable	**97.57%**	98.65%	98.92%
OAEM	**1.73**	–	–
Substandard	**0.70**	1.35	1.01
Doubtful	–	–	0.07
Total	**100.00%**	100.00%	100.00%
Waste disposal			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Communication			
Acceptable	**99.63%**	99.28%	96.99%
Substandard	**0.37**	0.27	2.02
Doubtful	–	0.45	0.99
Total	**100.00%**	100.00%	100.00%
Rural residential real estate			
Acceptable	**96.95%**	97.68%	95.36%
OAEM	**0.81**	0.57	1.78
Substandard	**2.24**	1.75	2.37
Doubtful	–	–	0.49
Total	**100.00%**	100.00%	100.00%
International			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Lease receivables			
Acceptable	**98.67%**	99.67%	99.98%
OAEM	**0.20**	0.04	–
Substandard	**1.13**	0.29	0.02
Total	**100.00%**	100.00%	100.00%

(continued)

Mission-related			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Loans to other financing institutions (OFI)			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**91.97%**	89.86%	91.14%
OAEM	**4.30**	5.83	4.51
Substandard	**3.72**	4.28	4.30
Doubtful	**0.01**	0.03	0.05
Total	**100.00%**	100.00%	100.00%

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2011. The following table presents information relating to impaired loans (including accrued interest).

		December 31	
	2011	2010	2009
Nonaccrual Loans:			
Current as to principal and interest	**$ 179,488**	$ 156,748	$ 119,259
Past due	**118,477**	132,261	175,589
Total nonaccrual loans	**297,965**	289,009	294,848
Impaired Accrual Loans:			
Restructured accrual loans	**11,445**	10,233	12,965
Accrual loans 90 days or more past due	**11,974**	11,137	1,505
Total impaired accrual loans	**23,419**	21,370	14,470
Total impaired loans	**$ 321,384**	$ 310,379	$ 309,318
Average impaired loans	**$ 296,924**	$ 321,581	$ 366,084

High risk assets consist of impaired loans and other property owned. The following table presents these in a more detailed manner than the previous table. These nonperforming assets (including related accrued interest) are as follows:

		December 31	
	2011	2010	2009
Nonaccrual loans			
Real estate mortgage	**$ 169,104**	$ 183,488	$ 125,975
Production and intermediate-term	**101,343**	74,599	110,934
Agribusiness	**25,922**	29,446	53,580
Communication	**528**	721	2,063
Energy	–	–	984
Rural residential real estate	**607**	409	614
Lease receivables	**461**	346	698
Total nonaccrual loans	**297,965**	289,009	294,848
Accruing restructured loans			
Real estate mortgage	**9,786**	10,208	12,806
Production and intermediate-term	**12**	19	–
Agribusiness	**1,647**	–	–
Rural residential real estate	–	6	159
Total accruing restructured loans	**11,445**	10,233	12,965
Accruing loans 90 days past due			
Real estate mortgage	**5,677**	7,006	709
Production and intermediate-term	**4,814**	4,131	572
Agribusiness	**1,483**	–	111
Communication	–	–	113
Total accruing loans 90 days past due	**11,974**	11,137	1,505
Total impaired loans	**321,384**	310,379	309,318
Other property owned	**88,642**	115,693	57,686
Total high risk assets	**$ 410,026**	$ 426,072	$ 367,004

A restructuring of a debt constitutes a troubled debt restructuring 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 regarding troubled debt restructurings that occurred during the year ended December 31, 2011:

	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 4,356	$ 4,301
Production and intermediate-term	6,230	6,230
Agribusiness	2,495	2,495
Total	$ 13,081	$ 13,026

Note: Pre-modification represents the recorded investment just prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable 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.

The following table presents information regarding troubled debt restructurings that occurred within the previous 12 months and for which there was a payment default during the period:

	Recorded Investment at period end
Troubled debt restructurings that subsequently defaulted:	
Real estate mortgage	$ 1,266
Total	$ 1,266

Additional impaired loan information is as follows:

	At December 31, 2011			For the Year Ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	**$ 30,657**	**$ 34,553**	**$ 8,271**	**$ 29,729**	**$ 97**
Production and intermediate-term	**56,690**	**72,287**	**15,578**	**40,160**	**(2)**
Agribusiness					
Processing and marketing	**11,203**	**20,121**	**1,832**	**19,256**	**6**
Farm-related business	**14**	**29**	**7**	**259**	**–**
Communication	**528**	**563**	**254**	**650**	**–**
Energy	**–**	**–**	**–**	**195**	**–**
Rural residential real estate	**221**	**267**	**19**	**170**	**4**
Lease receivables	**209**	**209**	**89**	**506**	**–**
Total	**$ 99,522**	**$ 128,029**	**$ 26,050**	**$ 90,925**	**$ 105**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	**$ 153,910**	**$ 162,840**		**$ 151,132**	**$ 3,574**
Production and intermediate-term	**49,479**	**70,413**		**40,203**	**2,528**
Agribusiness					
Loans to cooperatives	**128**	**124**		**32**	**–**
Processing and marketing	**9,328**	**16,672**		**11,737**	**286**
Farm-related business	**8,379**	**11,177**		**2,430**	**16**
Communication	**–**	**–**		**3**	**1**
Energy	**–**	**–**		**–**	**1**
Rural residential real estate	**386**	**413**		**260**	**1**
Lease receivables	**252**	**252**		**202**	**–**
Total	**$ 221,862**	**$ 261,891**		**$ 205,999**	**$ 6,407**
Total impaired loans:					
Real estate mortgage	**$ 184,567**	**$ 197,393**	**$ 8,271**	**$ 180,861**	**$ 3,671**
Production and intermediate-term	**106,169**	**142,700**	**15,578**	**80,363**	**2,526**
Agribusiness					
Loans to cooperatives	**128**	**124**	**–**	**32**	**–**
Processing and marketing	**20,531**	**36,793**	**1,832**	**30,993**	**292**
Farm-related business	**8,393**	**11,206**	**7**	**2,689**	**16**
Communication	**528**	**563**	**254**	**653**	**1**
Energy	**–**	**–**	**–**	**195**	**1**
Rural residential real estate	**607**	**680**	**19**	**430**	**5**
Lease receivables	**461**	**461**	**89**	**708**	**–**
Total	**$ 321,384**	**$ 389,920**	**$ 26,050**	**$ 296,924**	**$ 6,512**

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 acquisitions costs and may also reflect a previous direct write-down of the investment. Unpaid principal balance represents the recorded principal balance of the loan.

	At December 31, 2010			For the Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 26,072	$ 30,315	$ 6,221	$ 17,389	$ 240
Production and intermediate-term	29,686	37,953	7,359	51,068	16
Agribusiness					
Processing and marketing	19,684	23,798	8,895	43,714	–
Farm-related business	195	258	187	1,467	–
Communication	721	721	452	687	–
Rural residential real estate	195	195	15	276	–
Lease receivables	290	290	103	399	–
Total	$ 76,843	$ 93,530	$ 23,232	$ 115,000	$ 256
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 174,631	$ 175,575		$ 147,338	$ 3,467
Production and intermediate-term	49,063	58,487		51,437	1,840
Agribusiness					
Loans to cooperatives	–	–		187	33
Processing and marketing	6,947	21,416		5,287	42
Farm-related business	2,619	5,380		1,475	97
Communication	–	–		384	–
Rural residential real estate	220	220		144	23
Lease receivables	56	56		329	17
Total	$ 233,536	$ 261,134		$ 206,581	$ 5,519
Total impaired loans:					
Real estate mortgage	$ 200,703	$ 205,890	$ 6,221	$ 164,727	$ 3,707
Production and intermediate-term	78,749	96,440	7,359	102,505	1,856
Agribusiness					
Loans to cooperatives	–	–	–	187	33
Processing and marketing	26,631	45,214	8,895	49,001	42
Farm-related business	2,814	5,638	187	2,942	97
Communication	721	721	452	1,071	–
Rural residential real estate	415	415	15	420	23
Lease receivables	346	346	103	728	17
Total	$ 310,379	$ 354,664	$ 23,232	$ 321,581	$ 5,775

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

	2011	2010	2009
Interest income recognized on:			
Nonaccrual loans	**$ 5,783**	$ 4,577	$ 12,536
Restructured accrual loans	**434**	485	756
Accrual loans 90 days or more past due	**295**	713	585
Interest income recognized on impaired loans	**$ 6,512**	$ 5,775	$ 13,877

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31, 2011 were as follows:

Interest income which would have been recognized under the original loan terms	**$ 18,237**
Less: interest income recognized	**6,217**
Foregone interest income	**$ 12,020**

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 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	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 33,294	$ 77,129	$ 110,423	$ 15,269,987	$ 15,380,410	$ 5,677
Production and intermediate-term	19,473	30,472	49,945	5,486,809	5,536,754	4,814
Agribusiness	1,315	6,141	7,456	2,962,528	2,969,984	1,483
Communication	–	–	–	144,078	144,078	–
Energy	–	–	–	213,105	213,105	–
Water and waste disposal	–	–	–	19,803	19,803	–
International	–	–	–	76,316	76,316	–
Rural residential real estate	910	–	910	60,839	61,749	–
Lease receivables	–	–	–	151,555	151,555	–
Mission-related	–	–	–	8,368	8,368	–
OFIs	–	–	–	22,011	22,011	–
Total	$ 54,992	$ 113,742	$ 168,734	$ 24,415,399	$ 24,584,133	$ 11,974

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

	Balance at December 31, 2010	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2011
Real estate mortgage	$ 37,705	$ (8,685)	$ 871	$ 11,425	$ 41,316
Production and intermediate-term	53,501	(17,886)	1,010	13,833	50,458
Agribusiness	23,466	(4,266)	(15)	(3,453)	15,732
Communication	594	–	–	(45)	549
Energy	2,275	(1,063)	32	1,132	2,376
Water and waste disposal	6	–	–	5	11
International	21	–	–	13	34
Rural residential real estate	53	–	–	4	57
Lease receivables	935	(362)	–	329	902
Mission-related	1	–	–	–	1
Total	$ 118,557	$ (32,262)	$ 1,898	$ 23,243	$ 111,436

	Allowance for Credit Losses Ending Balance at December 31, 2011		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2011	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ 8,653	$ 32,663	$ 187,704	$ 15,192,706
Production and intermediate-term	15,581	34,877	106,716	5,430,038
Agribusiness	1,838	13,894	29,052	2,940,932
Communication	254	295	528	143,550
Energy	–	2,376	–	213,105
Water and waste disposal	–	11	–	19,803
International	–	34	–	76,316
Rural residential real estate	15	42	607	61,142
Lease receivables	89	813	460	151,095
Mission-related	–	1	–	8,368
Loans of OFIs	–	–	–	22,011
Total	$ 26,430	$ 85,006	$ 325,067	$ 24,259,066

NOTE 4 - INVESTMENT SECURITIES

As discussed in Note 2, the investment portfolio consists of debt securities having two components: the available-for-sale portfolio and the held-to-maturity portfolio.

A summary of the amortized cost, gross unrealized gains and losses in accumulated other comprehensive income, fair value and weighted yield at December 31 of available-for-sale investment securities, which excludes mission-related and Farmer Mac investments, follows. All of these securities were held by AgBank.

	December 31, 2011				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Yield**
U.S. Treasury securities	**$ 500,903**	**$ 409**	**$ –**	**$ 501,312**	**0.25%**
Mortgage-backed securities					
U.S. Government guaranteed	**1,801,238**	**6,375**	**258**	**1,807,355**	**0.79%**
Private Label - FHA/VA reperformers	**1,074,185**	**–**	**218,604**	**855,581**	**0.58%**
Federal agency guaranteed	**1,085,634**	**5,395**	**1,749**	**1,089,280**	**1.78%**
Non-agency	**169,475**	**155**	**17,855**	**151,775**	**1.31%**
FDIC insured bank debt	**142,496**	**350**	**–**	**142,846**	**1.24%**
Non-agency asset-backed securities	**80,531**	**–**	**17,873**	**62,658**	**0.53%**
Total	**$ 4,854,462**	**$ 12,684**	**$256,339**	**$ 4,610,807**	**0.93%**

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Yield
U.S. Treasury securities	$ 551,515	$ 602	$ 6	$ 552,111	0.38%
Mortgage-backed securities					
U.S. Government guaranteed	1,874,268	7,965	1,608	1,880,625	0.81%
Private Label - FHA/VA reperformers	1,200,346	–	155,145	1,045,201	0.55%
Federal agency guaranteed	473,197	4,807	8,689	469,315	2.73%
Non-agency	231,578	132	32,281	199,429	1.32%
FDIC insured bank debt	177,490	928	–	178,418	1.00%
Non-agency asset-backed securities	97,379	–	15,259	82,120	0.50%
Total	$ 4,605,773	$ 14,434	$ 212,988	$ 4,407,219	0.91%

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Yield
U.S. Treasury securities	$ 402,596	$ 162	$ 114	$ 402,644	0.37%
Mortgage-backed securities					
U.S. Government guaranteed	1,551,881	2,589	10,040	1,544,430	0.92%
Private Label - FHA/VA reperformers	1,345,614	–	212,693	1,132,921	0.52%
Federal agency guaranteed	922,673	5,640	9,958	918,355	4.14%
Non-agency	347,175	–	73,837	273,338	1.79%
FDIC insured bank debt	177,483	1,222	35	178,670	0.96%
Non-agency asset-backed securities	146,471	–	28,756	117,715	0.43%
Total	$ 4,893,893	$ 9,613	$ 335,433	$ 4,568,073	1.42%

The following table is a summary of the contractual maturity distribution of available-for-sale securities, excluding mission-related and Farmer Mac investments, providing fair value, amortized cost and weighted yield of available-for-sale investments at December 31, 2011.

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury securities	$501,312	0.25%	$ –	–	$ –	–	$ –	–	$ 501,312	0.25%
Mortgage-backed securities										
U.S. Government guaranteed	–	–	–	–	–	–	1,807,355	0.79%	1,807,355	0.79%
Private Label - FHA/VA reperformers	–	–	157,240	0.52%	–	–	698,341	0.60%	855,581	0.58%
Federal agency guaranteed	–	–	–	–	21,224	1.27%	1,068,056	1.79%	1,089,280	1.78%
Non-agency	–	–	–	–	–	–	151,775	1.31%	151,775	1.31%
FDIC insured bank debt	142,846	1.24%	–	–	–	–	–	–	142,846	1.24%
Non-agency asset-backed securities	–	–	–	–	–	–	62,658	0.53%	62,658	0.53%
Total fair value	$644,158	0.47%	$157,240	0.52%	$ 21,224	1.27%	$3,788,185	1.02%	$4,610,807	0.93%
Total amortized cost	$643,400		$174,227		$ 21,041		$4,015,794		$4,854,462	

Substantially all mortgage-backed securities have contractual maturities in excess of ten years. However, actual maturities for mortgage-backed securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment fees. Asset-backed securities can perform similarly to mortgage-backed securities.

AgBank and its related Associations also hold mission-related and Farmer Mac investments. The FCA approves mission-related programs and mission-related investments. Farmer Mac securities are Agricultural Mortgage-Backed Securities which are pools of agricultural loans that have been securitized and guaranteed by Farmer Mac.

The following is a summary of Farmer Mac investments that are available-for-sale. AgBank and its related Associations currently have no mission-related investments available-for-sale.

	December 31, 2011				
		Gross Unrealized			
	Amortized Cost	**Gains**	**Losses**	**Fair Value**	**Weighted Yield**
Agricultural mortgage-backed securities	**$ 361,095**	**$ 9,458**	**$ 833**	**$ 369,720**	**1.91%**
	December 31, 2010				
Agricultural mortgage-backed securities	$ 417,005	$ 8,895	$ 1,469	$ 424,431	2.30%
	December 31, 2009				
Agricultural mortgage-backed securities	$ 482,137	$ 10,587	$ –	$ 492,724	3.14%

The following is a summary of the mission-related and Farmer Mac investments which are held-to-maturity.

	December 31, 2011				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Yield**
Agricultural mortgage-backed securities	**$ 221,847**	**$ 7,982**	**$ –**	**$ 229,829**	**3.28%**
Asset-backed securities	**5,138**	**438**	**–**	**5,576**	**4.40%**
Total	**$ 226,985**	**$ 8,420**	**$ –**	**$ 235,405**	**3.31%**
	December 31, 2010				
Agricultural mortgage-backed securities	$ 257,528	$ 7,086	$ 373	$ 264,241	3.69%
Asset-backed securities	5,961	1,287	–	7,248	4.39%
Total	$ 263,489	$ 8,373	$ 373	$ 271,489	3.70%
	December 31, 2009				
Agricultural mortgage-backed securities	$ 291,198	$ 7,451	$ 1,474	$ 297,175	3.91%
Asset-backed securities	6,708	76	31	6,753	4.36%
Total	$ 297,906	$ 7,527	$ 1,505	$ 303,928	3.92%

All the mission-related and Farmer Mac investments, those considered available-for-sale and held-to-maturity, have a contractual maturity greater than 10 years.

During 2011, AgBank sold two securities that were held available-for-sale. During 2010, AgBank sold four securities and during 2009, it sold three securities. All were held as available-for-sale. Proceeds from sales and realized gross gains and gross losses on these investment securities are as follows:

	Year Ended December 31		
	2011	2010	2009
Proceeds from sales	**$ 672**	$ 59,494	$ 127,400
Realized gross gains	**–**	2,365	–
Realized gross losses	**261**	3,031	2,600

AgBank investments with an estimated fair value of $2.9 million, $6.2 million and $7.6 million at December 31, 2011, 2010 and 2009, respectively, were pledged as collateral for funding of the Kansas Agricultural Production Loan Deposit Program utilized by Associations.

Other-than-Temporary Impairment

During 2011, AgBank recorded initial impairment losses on two private label FHA/VA reperformer securities and subsequent impairment losses on seven non-agency mortgage-backed securities, three private label FHA/VA reperformer securities, and one asset-backed security that were determined to be other-than-temporarily impaired. The total impairment was $87.9 million with a credit-related loss of $23.3 million being recognized in earnings. The non-credit related component of $64.6 million was recognized in other comprehensive income as AgBank did not intend to sell and it is more likely than not that it will not be required to sell the securities prior to recovery.

During 2010, three asset-backed securities, four non-agency mortgage-backed securities and three FHA/VA reperformer securities held by AgBank were determined to be other-than-temporarily impaired resulting in a credit-related loss of $16.1 million being recognized in earnings. Due to unique market opportunities, two of these securities were subsequently sold later in 2010.

During 2009, two asset-backed securities and nine non-agency mortgage-backed securities were determined to be other-than-temporarily impaired resulting in a $36.4 million credit-related loss being recognized in 2009.

The impairment of investment securities is based on a variety of factors, including: (i) whether or not an entity intends to sell the security, (ii) whether it is more likely than not that an entity would be required to sell the security before recovering its costs, or (iii) whether management expects to recover the security's entire amortized cost basis.

AgBank estimated the portion of loss attributable to credit using a discounted cash flow model on a security-by-security basis. AgBank estimated the expected cash flows of the underlying collateral using management's best estimate of current key assumptions, such as default rates, collateral loss, loss severity and voluntary prepayment speeds. Assumptions regarding the underlying collateral of a security can vary widely and are influenced by such factors as the underlying loan interest rate, geographical location of the borrower, borrower characteristics and collateral type. AgBank used a third party vendor to determine how the underlying collateral cash flows will be distributed to each security issued from a structure. Expected principal and interest cash flows on an impaired debt security were discounted using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value for the specific security. The portion of the other-than-temporary impairment that is not credit-related remains in other comprehensive income and based on the expected cash flows derived from the model, AgBank expected to recover the remaining unrealized losses on these securities. Assumptions used in the credit loss determination at December 31 were as follows:

	Non-Agency Securities			Asset-Backed Securities			FHA/VA Reperformers	
	2011	2010	2009	**2011**	2010	2009	**2011**	2010
Range of Default Rate Assumptions	**4.0% - 11.2%**	3.5% - 9.2%	2.5% - 9.0%	**6.0% - 6.0%**	17.2% - 38.1%	14.3% - 16.3%	**1.8% - 3.0%**	1.7% - 4.8%
Range of Prepayment Rate Assumptions	**6.1% - 10.4%**	7.4% - 9.4%	8.8% - 18.7%	**3.2% - 3.5%**	7.0% - 10.4%	9.7% - 11.9%	**2.6% - 4.0%**	3.0% - 3.9%
Range of Loss Severity Assumptions	**52.8% - 59.5%**	52.0% - 56.0%	40.4% - 55.0%	**73.9% - 74.4%**	70.8% - 72.0%	69.9% - 70.8%	**7.2% - 20.8%**	7.3% - 7.3%

The table below details the activity related to the credit loss component of the debt securities that have been written down for other-than-temporary impairment as of December 31.

	2011	2010	2009
Loss component for which other-than-temporary impairment occurred prior to January 1, 2009			$ 16,483
Cumulative effect adjustment to retained earnings for adoption of new guidance			(1,993)
Credit loss component, beginning of the period	**$ 43,024**	$ 50,699	$ 14,490
Additions:			
Initial credit impairments	**517**	3,538	36,415
Subsequent credit impairments	**22,794**	12,519	–
Reductions:			
For securities sold (realized loss)	**–**	(22,489)	–
For increases in expected cash flows	**(829)**	(1,243)	(206)
Credit loss component at December 31	**$ 65,506**	$ 43,024	$ 50,699

Unrealized Losses

In addition to the securities that have been determined to be other-than-temporarily impaired, AgBank and the Associations owned securities that were in an unrealized loss position at December 31, 2011. These investments consisted predominantly of mortgage-backed securities and asset-backed securities. The unrealized loss positions of these securities resulted principally from changes in interest rates and a lack of liquidity in the marketplace as well as some credit deterioration. AgBank and Associations did not intend to sell these securities and it was not more likely than not that they would be required to sell these securities before recovery of their amortized cost basis. AgBank and its related Associations intended to hold these securities for a period of time sufficient to recover all gross unrealized losses. At December 31, 2011, these securities were not considered to be other-than-temporarily impaired. During 2011, due to their small remaining balance, AgBank sold two securities that were in an unrealized loss position, while in 2010 AgBank sold three securities due to unique market opportunities.

The following table shows those District investments in a continuous unrealized loss position (including available-for-sale and held-to-maturity) by fair value and gross unrealized losses, aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position. The continuous loss position is based on the date when the unrealized loss was first identified.

	Less than 12 months		12 months or longer	
December 31, 2011	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Mortgage-backed securities				
U.S. Government guaranteed	**$ 181,061**	**$ 85**	**$ 247,861**	**$ 173**
Private Label - FHA/VA reperformers	**–**	**–**	**855,581**	**218,604**
Federal agency guaranteed	**553,750**	**1,701**	**10,926**	**48**
Non-agency	**179**	**2**	**131,394**	**17,853**
Non-agency asset-backed securities	**–**	**–**	**62,658**	**17,873**
Farmer Mac	**–**	**–**	**106,331**	**833**
Total	**$ 734,990**	**$ 1,788**	**$ 1,414,751**	**$ 255,384**
December 31, 2010				
U.S. Treasury securities	$ 50,274	$ 6	$ –	$ –
Mortgage-backed securities				
U.S. Government guaranteed	400,197	1,608	–	–
Private Label - FHA/VA reperformers	–	–	1,045,201	155,145
Federal agency guaranteed	191,536	8,671	6,679	18
Non-agency	8,988	48	180,267	32,233
Non-agency asset-backed securities	–	–	82,120	15,259
Farmer Mac	–	–	205,395	1,842
Total	$ 650,995	$ 10,333	$ 1,519,662	$ 204,497

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31		
	2011	2010	2009
Land	**$ 22,865**	$ 21,354	$ 21,244
Buildings and improvements	**130,843**	124,748	121,827
Furniture and equipment	**63,382**	62,227	57,160
Construction in progress	**4,911**	4,175	1,380
	222,001	212,504	201,611
Less: accumulated depreciation	**79,518**	77,624	71,539
Balance at end of year	**$ 142,483**	$ 134,880	$ 130,072

AgBank and Associations owned land and buildings throughout the District, in numerous headquarters and branch locations, with an aggregate net book value of $115.9 million. These properties are, for the most part, small and mid-sized office structures which are generally typical of property in the local area. The largest building owned in the District was the AgBank headquarters location in Wichita, Kansas, with a net book value of $7.5 million. This facility was occupied by management and staff of AgBank and AgVantis, with the majority of the space leased to various unrelated tenants. In addition to owned property, AgBank and Associations had certain office space leases.

NOTE 6 - OTHER ASSETS AND OTHER LIABILITIES

A summary of other assets and other liabilities follows:

	2011	2010	2009
Other assets:			
Deferred tax assets, net	**$ 2,373**	$ 8,657	$ 9,273
Investments in other System institutions	**45,554**	39,815	33,616
Investment in Farmer Mac	**–**	–	9,000
Equipment held for lease	**4,537**	4,887	5,522
Accounts receivable	**21,773**	18,101	32,273
Receivable for matured security	**50,000**	–	4,855
Prepaid income taxes	**2,278**	2,668	792
Prepaid expenses	**6,075**	7,154	7,441
Trust assets – nonqualified retirement plans	**25,288**	24,589	26,750
Unamortized debt issue costs	**11,399**	11,757	13,394
Other	**7,906**	6,401	9,891
Total	**$ 177,183**	$ 124,029	$ 152,807
Other liabilities:			
Accrued taxes payable	**$ 192**	$ 1,281	$ 700
Pension and other postretirement benefit liabilities	**206,391**	144,039	139,284
FCSIC premium payable	**12,687**	11,241	46,845
Dividends payable	**–**	6,874	6,874
Accounts payable	**63,802**	50,894	54,309
Collateral held from derivative counterparties	**12,840**	380	1,811
Other	**61,656**	55,747	58,299
Total	**$ 357,568**	$ 270,456	$ 308,122

NOTE 7 - BONDS AND NOTES

The System, unlike commercial banks and other depository institutions, obtains funding for its lending operations primarily from the sale of Systemwide Debt Securities issued by System Banks through the Funding Corporation. Systemwide bonds, medium-term notes and discount notes (Systemwide Debt Securities) are the joint and several obligations of the System Banks.

Certain conditions must be met before the Bank can participate in the issuance of Systemwide Debt Securities. As one condition of participation, the Bank is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the System Banks. The System Banks and the Funding Corporation have entered into the Market Access Agreement, which establishes criteria and procedures for the Banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide Debt issuances, thereby reducing other System Banks' exposure to statutory joint and several liability. At December 31, 2011, AgBank was in compliance with the conditions of participation for the issuances of Systemwide Debt Securities.

Each issuance of Systemwide Debt Securities ranks equally, in accordance with the FCA regulations, with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The System may issue the following types of Systemwide Debt Securities:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes, and
- any other debt securities that the System banks may jointly issue from time to time.

For a discussion of the various risks, tax and other considerations, and terms and conditions related to each of these types of securities, see the discussions in the following offering circulars (available on the Funding Corporation's Website located at www.farmcredit-ffcb.com), as applicable:

- Federal Farm Credit Banks Consolidated Systemwide Bonds, and Discount Notes Offering Circular dated June 18, 1999, as amended by the supplements dated August 20, 2001, November 26, 2003, March 8, 2007, and September 30, 2008, and
- Federal Farm Credit Banks Consolidated Systemwide Master Notes Offering Circular dated December 21, 1999, as amended by the supplement dated August 20, 2001.

Each of these offering circulars may be further amended or supplemented from time to time. In addition, the Banks may in the future offer new types of Systemwide Debt Securities; the offering of any such securities will be pursuant to additional offering circulars.

AgBank's participation in Systemwide Debt Securities as of December 31, 2011 follows:

	Bonds		**Medium-term notes**		**Discount notes**		**Total**	
Year of maturity	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate
2012	$ 5,878,500	0.90%	$ –	–	$ 2,069,180	0.13%	$ 7,947,680	0.70%
2013	6,529,789	0.91%	40,125	5.47%	–	–	6,569,914	0.94%
2014	3,141,244	1.07%	–	–	–	–	3,141,244	1.07%
2015	1,984,384	1.81%	–	–	–	–	1,984,384	1.81%
2016	1,000,954	2.93%	–	–	–	–	1,000,954	2.93%
2017 and thereafter	2,957,724	4.22%	–	–	–	–	2,957,724	4.22%
Total	$ 21,492,595	1.56%	$ 40,125	5.47%	$ 2,069,180	0.13%	$ 23,601,900	1.44%

In the preceding table, weighted average interest rates include the effect of related derivative financial instruments.

The average balance of Systemwide Debt Securities was $23.01 billion in 2011, $23.45 billion in 2010 and $24.06 billion in 2009.

Discount notes are issued with maturities ranging from 1 day to 365 days. The average remaining maturity of discount notes held at December 31, 2011 was 98 days.

Systemwide Debt includes callable debt consisting of the following:

Year of Maturity	**Maturing Amount**	**Range of Call Dates**
2012	$ 2,498,194	01/01/12 – 12/27/12
2013	280,000	01/18/13 – 11/29/13
2014	55,000	02/03/14 – 11/17/14
Total	$ 2,833,194	

Callable debt may be called on the first call date and, generally, on each business day thereafter.

AgBank was party to interest rate cap and swap agreements with a total notional value of $2.75 billion at December 31, 2011, $2.67 billion at December 31, 2010 and $2.78 billion at December 31, 2009. The interest rate caps were purchased to minimize the impact of rising interest rates on short-term liabilities and correspondingly prevent a reduction in interest rate spread relative to certain loans or investments. The effect of these caps is reflected in the weighted average interest rates in a previous table. In addition, interest rate swaps were executed to convert fixed rate debt to floating rate debt and are also reflected in the weighted average interest rates.

As described in Note 1, the Insurance Fund is available to ensure the timely payment of principal and interest on Systemwide Debt Securities (insured debt) of System Banks to the extent net assets are available in the Insurance Fund and not designated for specific use. All other liabilities in the combined financial statements are uninsured. At December 31, 2011, the assets of the Insurance Fund aggregated $3.39 billion; however, due to the other authorized uses of the Insurance Fund there is no assurance that the amounts in the Insurance Fund will be sufficient to fund the timely payment of principal, or interest on, an insured debt obligation in the event of a default by any System bank having primary liability thereon.

Included in other bonds and notes, the District recorded a $400.0 million note payable to CoBank for the sale by AgBank of a participation of wholesale loan volume. Funds held for borrowers of $486.7 million were also included in other bonds and notes.

NOTE 8 - SHAREHOLDERS' EQUITY

Descriptions of AgBank's and Associations' capitalization, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

Protected Stock

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

Stock and Participation Certificates

In accordance with the Farm Credit Act, each borrower is required to invest in their respective association as a condition of borrowing. The borrower normally acquires ownership of the stock or participation certificates at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Bank and Associations have a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

Certain Associations require stock for each borrower loan while other Associations require stock for each borrower. The initial investment requirement varies by Association and ranges from the statutory minimum of two percent of the loan amount or one thousand dollars, whichever is less, to three percent of the loan. Each Association's Board of Directors may modify the investment requirement, as permitted within its capitalization bylaws, to meet the Association's capital needs.

Preferred Stock

The Bank and certain Associations have approval to issue preferred stock. For the Bank, preferred stock is issued only to qualified investors outside District institutions; whereas for Associations, preferred stock is limited to existing common stock shareholders. Retirement of preferred stock requires that entity's Board approval.

Description of Equities

Provided below is a description of each class of Association and AgBank stock:

Associations: Fifteen Associations issue voting Class B Stock, non-voting Class C Stock, non-voting Class D Stock, and preferred Class H Stock in such amounts as may be necessary to conduct its business. Class F Stock and Class G Stock are protected classes of stock which are no longer issued. The following table includes further information related to the classes of stock outstanding for these Associations as of December 31, 2011.

	Par Value	Number of Shares	Aggregate Par Value ($ in thousands)
Class B	$ 5.00	3,929,805	$ 19,649
Class C	$ 5.00	79,109	$ 395
Class D	$ 5.00	600	$ 3
Class F	$ 5.00	24,530	$ 122
Class G	$ 5.00	10,956	$ 55
Class H	$ 0.01	1,508,648,811	$ 15,086

Eleven Associations issue voting Class A and Class C Stock for mortgage and agricultural loans, non-voting Class D Stock, non-voting Class F participation certificates for rural residence or farm-related business loans and preferred Class H Stock in such amounts as may be necessary to conduct business. The following table includes further information related to the classes of stock outstanding for these Associations.

	Par Value	Number of Shares	Aggregate Par Value ($ in thousands)
Class A	$ 5.00	87	$ –
Class C	$ 5.00	3,541,321	$ 17,706
Class D	$ 5.00	400	$ 2
Class F	$ 5.00	100,491	$ 502
Class H	$ 1.00	303,301,895	$ 303,302

All Associations have the authority to issue other classes of stock, no shares of which are outstanding as of December 31, 2011.

The bylaws of each Association permit stock and participation certificates to be retired at the discretion of the board of directors in accordance with the Association's capitalization plan. Each holder of voting common stock is entitled to a single vote in matters impacting the Association. The eligibility to exercise the right to vote is dependent upon factors such as the organizational structure of the borrower and interrelationships of borrowers with more than one loan.

As determined by the Associations' boards of directors, dividends may be declared in stock and/or cash; and patronage distributions may be made in the form of stock, cash, qualified and/or nonqualified notices of allocation. Under FCA regulations net income distributions may be made only when the Association meets capital adequacy standards and no class of stock is impaired.

Generally, in the event of liquidation or dissolution of an Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: first, pro rata to all classes of preferred stock; second, pro rata to all classes of common stock and participation certificates; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in order of year of issuance and pro rata by year of issuance; fourth, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance. Any remaining assets of the Association after such distributions shall be distributed to present and former patrons on a patronage basis, to the extent practicable. Additional details and individual association differences may be found in the individual Association annual reports.

Losses which result in impairment of stock would first impair all classes of common stock and participation certificates, if any, on a pro rata basis until fully impaired, then all classes of preferred stock on a pro rata basis until fully impaired.

Bank: Associations are required to invest in capital stock of the Bank. These intercompany balances and transactions are eliminated in combination.

AgBank is authorized to issue and have outstanding the following classes of capital stock:

Class A Common Stock - Par value of $5.00 per share, voting stock issued solely to and held solely by Associations;

Class B Common Stock - Par value of $5.00 per share, non-voting stock issued solely to and held solely by OFIs, in support of their borrowing relationship with AgBank;

Class C Common Stock - Par value of $5.00 per share, non-voting stock issued to System institutions in connection with loans or loan participations in which AgBank stock issuance is required;

Class A Preferred Stock - Par value of $1 thousand per share, non-voting Class A Perpetual Non-Cumulative Fixed-to-Floating Rate Preferred Stock, Series 1 issued to qualified institutional borrowers in minimum amounts of $250 thousand; and,

Class D Preferred Stock - Par value of $5.00 per share, non-voting stock issued in exchange for the Class A Common Stock of an Association that reaffiliates to another Farm Credit Bank or terminates its System status, or to any person or legal entity who purchases such stock as an at-risk equity investment in AgBank.

The Bank makes loans to Associations, which are generally referred to as wholesale loan volume. Each Association was required to own and maintain an investment in AgBank equities equal to 5.00 percent of its wholesale loan volume (the "Required Investment").

AgBank equities included stock, whether purchased or received in a patronage refund, and attributed surplus. Surplus could be attributed to Associations under provisions of the AgBank bylaws. Attributed surplus does not represent a class of stock or other ownership interest. The Required Investment was measured on the first day of each calendar quarter with reference to the

Association's average prior quarter's wholesale loan volume, and after taking into account the prior quarter's patronage. On the first day of each calendar quarter, if, and to the extent an Association's investment in AgBank equities fell below the Required Investment (a "Shortfall"), then the Association was required to purchase additional Class A Common Stock in an amount necessary to eliminate the Shortfall.

If an Association had a Shortfall due to an AgBank loss that was not, in whole or in part, attributable to the Association's wholesale loan, then the Association's investment could be increased by up to 1.00 percent of the Association's average wholesale loan volume in any 12-month period. For purposes of clarification, references to wholesale loan volume means an Association's average daily outstanding loan balance owed to AgBank for the specified period, minus any average daily excess investment for such period.

On the first day of each calendar quarter, the amount by which an Association's investment in AgBank equities exceeded the Required Investment was referred to as an "Excess Investment." Except in specific instances, any excess patronage-based stock investment in AgBank would be counted by Associations as permanent capital, as per the Permanent Capital Counting Agreements with Associations. For purposes of clarification, references to Association include an ACA and its subsidiaries on a combined basis, which together represents one Association, or an FLCA.

Pursuant to the merger between CoBank and AgBank, AgBank undertook a recapitalization transaction on December 31, 2011 in order to align all Associations with CoBank's stock investment requirement. The recapitalization involved the tax-free issuance of AgBank common stock to each Association in exchange for an equal amount of attributed surplus previously allocated on a patronage basis to such Association. The attributed surplus was a component of Bank equity representing prior year earnings. The exchange resulted in a distribution from retained earnings of $246.0 million and an increase in capital stock. This transaction was eliminated in combination.

At December 31, 2011, AgBank had $885.8 million (177,162,554 shares) of Class A Common Stock and $1 thousand (200 shares) of Class B Common Stock, $1 thousand (200 shares) of Class C Common Stock and $225.0 million (225,000 shares) of Class A Preferred Stock outstanding. No other classes or types of stock were outstanding for AgBank at year-end.

During 2011, AgBank distributed $104.6 million in cash patronage based on its 2010 earnings to Associations. Additionally, AgBank declared and recorded cash patronage distributions payable to Associations of $76.1 million on December 31, 2011 related to 2011 earnings, which was paid in March 2012 by the merged Bank. AgBank distributed cash patronage of $23.4 million in March 2010 for 2009 earnings and $4.5 million priority patronage in 2009 for 2009 priorities. The patronage distributed to the Associations is eliminated in combination.

At the inception of each OFI loan, AgBank requires OFIs to make cash purchases of stock in AgBank. AgBank has a first lien on these equities for the repayment of any indebtedness to AgBank. At December 31, 2011, AgBank had $1 thousand (200 shares) of stock outstanding to an OFI at a par value of $5.00 per share.

AgBank issued $225.0 million of perpetual non-cumulative fixed-to-floating preferred stock at a par value of $1 thousand per share. Dividends are declared at the sole discretion of the Board of Directors. Dividends are non-cumulative and will be paid semi-annually on the 10th day of January and July commencing July 10, 2007 and ending on July 10, 2012, at an annual rate of 6.11 percent during the fixed period; and quarterly on the 10th day of January, April, July and October beginning October 10, 2012 at an annual rate equal to 3-Month USD LIBOR plus 1.18 percent. On the payment date in July 2012 or on each fifth anniversary thereafter, the Bank may, at its option, redeem the preferred stock in whole or in part at the redemption price of $1 thousand per share, plus accrued and unpaid dividends for the then current dividend period to the redemption date. The funds were used for general corporate purposes and to reduce the Associations' required investment in AgBank by 1.25 percent from 6.25 percent to 5.00 percent. During 2011, AgBank declared $13.4 million of preferred stock dividends.

Other Equity: Each customer of AgVantis is required to invest in stock of AgVantis. As of year-end 2011, AgVantis recorded $610 thousand in total stock outstanding, $510 thousand in Class A Stock from each of the seventeen Association customers and $100 thousand in Class B Stock from AgBank. The AgBank and Association stock is eliminated in combination.

During 2011, AgBank loaned funds to AgVantis. At December 31, 2011, AgBank had $1 thousand (200 shares) of stock outstanding to AgVantis at a par value of $5.00 per share. This is eliminated in combination.

Additional Paid In Capital

The additional paid in capital of $206.9 million represents the excess value received over the par value of capital stock and participation certificates issued by American AgCredit, ACA in connection with the Association's acquisition of Farm Credit of the Heartland, ACA.

Other Comprehensive Income/Loss

An additional component of shareholders' equity is accumulated other comprehensive income/(loss), which is reported net of taxes as follows:

	2011	2010	2009
Unrealized losses on investments held available-for-sale	**$ (84,815)**	$ (103,857)	$ (236,691)
Other-than-temporary impairment on investments available-for-sale	**(150,215)**	(87,272)	(78,542)
Unrealized losses on cash flow hedges	**(14,352)**	(7,464)	(941)
Pension adjustment for unrealized losses	**(196,671)**	(138,750)	(140,238)
Total accumulated other comprehensive income/(loss)	**$ (446,053)**	$ (337,343)	$ (456,412)

The following table details activity in accumulated other comprehensive income/(loss).

	2011	2010	2009
Beginning Balance	**$ (337,343)**	$ (456,412)	$ (340,885)
Cumulative effect adjustment upon adoption of new accounting principle for other-than-temporary impairments of investment securities	**–**	–	(1,993)
Balance at January 1	**$ (337,343)**	$ (456,412)	$ (342,878)
Change in unrealized holding gains/(losses) on available-for-sale investments	**(67,473)**	107,381	(164,039)
Loss on investment impairment recognized in earnings	**23,311**	16,057	36,415
Realized loss on sold investments available-for-sale	**261**	666	2,600
Change in unrealized holding (losses)/gains on cash flow derivatives	**(7,919)**	(9,463)	4,305
Reclassification to earnings related to cash flow hedges	**1,031**	2,940	4,412
Current year actuarial loss on pension	**(65,098)**	(10,119)	(9,369)
Pension amortization recognized in earnings	**7,177**	11,607	11,508
Pension adjustment related to merged Association	**–**	–	634
Ending Balance	**$ (446,053)**	$ (337,343)	$ (456,412)

For further information on the pension related activity included in the previous table, refer to Note 10 Employee Benefit Plans.

Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require the Bank and Associations to maintain permanent capital of 7.00 percent of average risk-adjusted assets. Failure to meet the requirement can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Bank's or Associations' financial statements. The Bank and Associations are prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. The FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of average risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.50 percent.

The following table presents capital ratios for AgBank and the range of ratios and weighted averages for the District Associations at December 31, 2011.

	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio
AgBank	22.27%	17.62%	13.93%
Associations	12.68% - 31.12%	12.46% - 30.71%	12.46% - 26.98%
Association weighted average	18.20%	16.70%	16.20%
Regulatory minimum	7.00%	7.00%	3.50%

In addition, the Bank is required by regulation to achieve and maintain a net collateral ratio of 104.00 percent of total liabilities. At December 31, 2011, AgBank's net collateral ratio was 105.15 percent. All District institutions exceed the regulatory minimum standards for capital and collateral at December 31, 2011.

An existing regulation empowers FCA to direct a transfer of funds or equities from one or more System institution to another System institution under specified circumstances. This regulation has not been utilized to date. The Bank and Associations have not been called upon to initiate any transfers and are not aware of any proposed action under this regulation.

NOTE 9 - INCOME TAXES

The provision for/(benefit from) income taxes follows:

	2011	2010	2009
Current:			
Federal	**$ 1,674**	$ 2,652	$ 1,773
State	**191**	240	255
Deferred:			
Federal	**6,078**	533	(2,972)
State	**206**	83	28
Provision for/(Benefit from) income taxes	**$ 8,149**	$ 3,508	$ (916)

The difference in the statutory tax rate and the effective tax rate was primarily due to the tax exemption of AgBank and FLCA earnings. The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income presented as follows:

	2011	2010	2009
Federal tax at statutory rate	**$ 175,539**	$ 175,082	$ 109,960
State tax, net	**283**	254	198
Effect of nontaxable entities	**(141,673)**	(147,076)	(95,951)
Patronage distributions	**(24,669)**	(24,712)	(17,953)
Other	**(1,331)**	(40)	2,830
Provision for/(Benefit from) income tax	**$ 8,149**	$ 3,508	$ (916)

Deferred tax assets and liabilities are comprised of the following:

	2011	2010	2009
Deferred tax assets:			
Allowance for loan losses	**$ 19,355**	$ 21,301	$ 21,447
Nonaccrual loan interest	**4,616**	2,409	2,232
Annual leave	**83**	71	65
Loss carryforwards	**4,871**	9,074	9,684
Employee benefit plan obligations	**341**	516	557
Other	**3,775**	8,100	3,686
Gross deferred tax assets	**33,041**	41,471	37,671
Less: Valuation allowance	**(10,225)**	(18,840)	(16,214)
Deferred tax assets, net of valuation allowance	**22,816**	22,631	21,457
Deferred tax liabilities:			
Bank patronage to Associations	**(10,696)**	(4,444)	(3,864)
Depreciation	**(206)**	(93)	(171)
Other	**(9,541)**	(9,437)	(8,149)
Gross deferred tax liabilities	**(20,443)**	(13,974)	(12,184)
Net deferred tax assets	**$ 2,373**	$ 8,657	$ 9,273

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained for those Associations operating as Subchapter T cooperatives. The expected future tax rates are based upon enacted tax laws.

District Associations and AgVantis recorded valuation allowances totaling $10.2 million, $18.8 million and $16.2 million during 2011, 2010 and 2009, respectively. Management will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

Although aggregated in the combined financial statements, the loss carryforwards of each District entity is particular to that institution. For taxable entities, each Association files its own income tax return.

District Associations and AgVantis recognize interest and penalties related to unrecognized tax benefits as an adjustment to income tax expense. However, the District does not have any unrecognized tax benefits in 2011, 2010 or 2009. The tax years that remain open for federal and major state income tax jurisdictions are 2008 and forward.

NOTE 10 - EMPLOYEE BENEFIT PLANS

The AgBank District participates in two defined benefit retirement plans: the Ninth Farm Credit District Pension Plan (Ninth Pension Plan) and the Eleventh Farm Credit District Employees' Retirement Plan (Eleventh Retirement Plan). It also participates with Farm Credit System employers from other districts in the Farm Credit Foundations 401(k) Plan (Foundations 401(k) Plan). Most District employees are eligible to participate in at least one of these plans. Certain individuals may participate in a nonqualified pension restoration plan in addition to the pension or retirement plans. For postretirement welfare benefits other than pension, the District participates along with other Farm Credit System employers in the Farm Credit Foundations Retiree Medical Plan (Retiree Medical Plan). Certain eligible employees are able to voluntarily defer a portion of their compensation for tax purposes under the Nonqualified Deferred Compensation Plan (NQDC).

AgBank, AgVantis and certain Associations participate in the Ninth Pension Plan. The Ninth Pension Plan is noncontributory and covers certain employees of AgBank, AgVantis and the former Ninth District Associations. Benefits are based on compensation and years of service. The Ninth Pension Plan was closed to new participants beginning January 1, 2007. Employees hired on or after January 1, 2007, are only eligible to participate in the Foundations 401(k) Plan.

AgBank and certain District Associations participate in the Eleventh Retirement Plan. The Eleventh Retirement Plan is noncontributory and covers certain employees of the former Eleventh District Associations and some AgBank employees. Benefits are based on compensation and years of service. The Eleventh Retirement Plan was closed to new employees hired after December 31, 1997. Employees in the former Eleventh District hired on or after January 1, 1998 are only eligible to participate in the Foundations 401(k) Plan.

Certain employers participate in a District-wide nonqualified defined benefit Pension Restoration Plan that is unfunded. The purpose of the Pension Restoration Plan is to supplement a participant's benefits under the District's other retirement plans to the extent that such benefits are reduced by the limitations imposed by the Internal Revenue Code. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan.

AgBank, AgVantis and certain Associations also offer health care and other postretirement benefits to eligible retired employees through the Retiree Medical Plan. These plans are contributory and noncontributory. The anticipated costs of these are accrued during the period of the employee's active service.

The funding status and the amounts recognized in the combined statement of condition for the Ninth Pension Plan, Eleventh Retirement Plan and the nonqualified pension restoration plan are shown under Pension Benefits; and the Retiree Medical Plan is shown under Other Benefits as follows:

	Pension Benefits			Other Benefits		
	2011	2010	2009	**2011**	2010	2009
Change in benefit obligation						
Benefit obligation at the beginning of the period	**$ 410,416**	$ 386,421	$ 339,601	**$ 7,027**	$ 6,345	$ 7,791
Service cost	**8,451**	8,072	7,810	**88**	88	82
Interest cost	**20,569**	21,181	20,834	**350**	369	471
Plan amendments	**–**	–	75	**–**	–	–
Actuarial (gain)/loss	**42,114**	15,046	33,477	**1,184**	880	(1,291)
Benefits paid	**(17,460)**	(20,304)	(15,376)	**(594)**	(655)	(708)
Benefit obligation at the end of the period	**$ 464,090**	$ 410,416	$ 386,421	**$ 8,055**	$ 7,027	$ 6,345
Change in plan assets						
Fair value of plan assets at beginning of the period	**$ 273,404**	$ 253,482	$ 209,254	$ –	$ –	$ (8)
Actual return on plan assets	**22**	26,965	41,544	**–**	–	–
Employer contributions	**9,788**	13,261	18,060	**594**	655	716
Benefits and premiums paid	**(17,460)**	(20,304)	(15,376)	**(594)**	(655)	(708)
Fair value of plan assets at the end of the period	**$ 265,754**	$ 273,404	$ 253,482	**$ –**	$ –	$ –
Funded status	**$ (198,336)**	$ (137,012)	$ (132,939)	**$ (8,055)**	$ (7,027)	$ (6,345)
Amounts recognized in the combined statement of condition consist of:						
Pension liabilities	**(198,336)**	(137,012)	(132,939)	**(8,055)**	(7,027)	(6,345)
Net amount recognized	**$ (198,336)**	$ (137,012)	$ (132,939)	**$ (8,055)**	$ (7,027)	$ (6,345)

The following represents the amounts included in accumulated other comprehensive (income)/loss at December 31.

	Pension Plan			Other Benefits		
	2011	2010	2009	**2011**	2010	2009
Unrecognized net actuarial loss	**$ 192,545**	$ 136,432	$ 139,534	**$ 1,309**	$ 117	$ (856)
Unrecognized net transition (asset)/obligation	**(561)**	(877)	(1,193)	–	4	12
Unrecognized prior service costs/(credits)	**3,378**	3,099	2,805	–	(25)	(64)
Total amount recognized in accumulated other comprehensive (income)/loss	**$ 195,362**	$ 138,654	$ 141,146	**$ 1,309**	$ 96	$ (908)

The projected and accumulated benefit obligation for the Ninth Pension Plan and the Eleventh Retirement Plan and the nonqualified pension restoration follows:

	December 31, 2011	December 31, 2010	December 31, 2009
Projected benefit obligation	**$ 464,090**	$ 410,416	$ 386,421
Accumulated benefit obligation	**$ 396,344**	$ 356,312	$ 331,529

The net periodic benefit costs for the Ninth Pension and the Eleventh Retirement Plans including the nonqualified pension restoration plan under Pension Benefits and Retiree Medical Plan under Other Benefits included in the combined statement of income is comprised of the following:

	Pension Benefits			Other Benefits		
	2011	2010	2009	**2011**	2010	2009
Net Periodic Benefit Cost						
Service cost	**$ 8,451**	$ 8,072	$ 7,810	**$ 88**	$ 88	$ 82
Interest cost	**20,569**	21,181	20,834	**350**	369	471
Expected return on plan assets	**(21,822)**	(21,158)	(19,579)	**–**	–	–
Net amortization and deferral	**7,206**	11,732	11,540	**(29)**	(124)	(32)
Net periodic cost	**$ 14,404**	$ 19,827	$ 20,605	**$ 409**	$ 333	$ 521
Retirement incentive cost, net	**–**	–	928	**–**	–	–
Total cost	**$ 14,404**	$ 19,827	$ 21,533	**$ 409**	$ 333	$ 521
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income						
Net loss/(gain)	**$ 63,914**	$ 9,239	$ 10,659	**$ 1,184**	$ 880	$ (1,290)
Amortization	**(7,206)**	(11,731)	(11,539)	**29**	124	31
Total recognized in other comprehensive income	**$ 56,708**	$ (2,492)	$ (880)	**$ 1,213**	$ 1,004	$ (1,259)
Total recognized in net periodic benefit cost and other comprehensive (income)/loss	**$ 71,112**	$ 17,335	$ 20,653	**$ 1,622**	$ 1,337	$ (738)

An estimated net loss of $13.6 million, prior service credit of $244 thousand and transition assets of $316 thousand for the defined benefit pension plans will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year. The, net actuarial loss for the other defined benefit postretirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year is $83 thousand. Due to the AgBank/CoBank merger on January 1, 2012, AgBank participants in these plans and the related assets and liabilities will be transferred to the CoBank benefit plans and as a result the amounts to be amortized would likely be reduced.

Additional Information

In calculating pension expense for the Ninth Pension Plan and in determining the expected rate of return, the value of assets phases in investment gains and losses over a five-year period. In calculating pension expense for the Eleventh Retirement Plan, the value of assets includes current year gains and losses and there is no phase in period.

Assumptions for Ninth Pension Plan and Eleventh Retirement Plan

Weighted average assumptions used to determine retirement and postretirement benefit obligations:

	Pension Benefits			Other Benefits		
	2011	2010	2009	**2011**	2010	2009
Discount rate (Ninth qualified plan)	**4.95%**	5.15%	5.70%	**4.95%**	5.15%	5.70%
Discount rate (Ninth nonqualified plan)	**5.10%**	5.30%	5.65%	**NA**	NA	NA
Discount rate (Eleventh qualified plan)	**4.90%**	5.20%	5.65%	**4.90%**	5.20%	5.65%
Discount rate (Eleventh nonqualified plan)	**5.05%**	5.35%	5.60%	**NA**	NA	NA
Rate of compensation increase (Ninth)	**5.00%**	5.00%	5.00%	**NA**	NA	NA
Rate of compensation increase (Eleventh)	**4.50%**	4.50%	4.50%	**NA**	NA	NA

Weighted average assumptions used to determine net periodic benefit cost:

	Pension Benefits			Other Benefits		
	2011	2010	2009	**2011**	2010	2009
Discount rate (Ninth Qualified plan)	**5.15%**	5.70%	6.30%	**5.15%**	5.70%	6.30%
Discount rate (Ninth nonqualified plans)	**5.30%**	5.65%	6.35%	**NA**	NA	NA
Discount rate (Eleventh Qualified plan)	**5.20%**	5.65%	6.30%	**5.20%**	5.65%	6.30%
Discount rate (Eleventh nonqualified plans)	**5.35%**	5.60%	6.40%	**NA**	NA	NA
Expected long-term return on plan assets (Ninth)	**8.25%**	8.25%	8.50%	**NA**	NA	NA
Expected long-term return on plan assets (Eleventh)	**8.00%**	8.00%	8.25%	**NA**	NA	NA
Rate of compensation increase (Ninth)	**5.00%**	5.00%	5.00%	**NA**	NA	NA
Rate of compensation increase (Eleventh)	**4.50%**	4.50%	4.50%	**NA**	NA	NA

The discount rate for the benefit plans was selected by reference to actuarial analysis, industry norms, and Aon Hewitt's AA Only Above Median curve.

For postretirement benefit obligations measurement purposes in the Retiree Medical Plan, annual rates of increase of 8.00 percent in the per capita cost of covered health benefits were assumed for next year. The rates were assumed to decrease to 5.00 percent through the year 2018, and remain at that level thereafter. Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	$ 32	$ (26)
Effect on postretirement benefit obligation	$ 386	$ (329)

Plan Assets

The funding objective of the Ninth Pension and Eleventh Retirement Plans is to provide present and future retirement or survivor benefits for its members by achieving an attractive rate of return, as defined by the plans' policy statements, without exposing the plan to undue risk. A Board of Trustees, called the Farm Credit Foundations Trust Committee, comprised of certain members of senior management of the participating employers, supervises the investment assets of the plans on behalf of the employers. The Trustees adopt an asset allocation strategy for each plan that reflects return and risk objectives, plan liabilities, and other factors.

The Trustees employ a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and the participating entities' financial conditions. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks as well as growth, value, small, mid, and large capitalizations. Other investment strategies may be employed to gain certain market exposures, reduce portfolio risk, and to further diversify portfolio assets. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and monthly and quarterly investment portfolio reviews.

The Trustees have developed an asset allocation policy based on plan objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. The policy is long-term oriented and consistent with the risk exposure. The Trustees review the asset mixes periodically and regularly monitor the portfolios to maintain compliance with pre-established strategic allocation ranges. For the Ninth Pension Plan, the current asset allocation policy of the pension plan is a target of 70% of assets in equity securities, 25% in debt securities and 5% in real estate. For the Eleventh Pension Plan, the current asset allocation policy of the pension plan is a target of 60% of assets in equity securities, 35% in debt securities and 5% in real estate.

The expected long-term rate of return assumption is determined by the Trustees who use historical return information to establish a best-estimate range for each asset class in which the plans are invested. The Trustees select the most appropriate rate from the best-estimate range, taking into consideration the duration of plan benefit liabilities and plan sponsor investment policies.

The fair values of the District's pension plan assets at December 31 by asset category are as follows:

December 31, 2011	**Fair Value Measurements**			
Asset Category	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Input (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Cash and cash equivalents	**$ 41,002**	**$ –**	**$ –**	**$ 41,002**
Mutual funds:				
International funds	**31,136**	**–**	**–**	**31,136**
Bond funds	**–**	**36,330**	**–**	**36,330**
Hedged equity funds	**–**	**–**	**6,546**	**6,546**
Trust funds	**–**	**130,994**	**–**	**130,994**
Limited partnerships	**–**	**–**	**19,746**	**19,746**
Total	**$ 72,138**	**$ 167,324**	**$ 26,292**	**$ 265,754**

December 31, 2010	Fair Value Measurements			
Asset Category	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	$ 5,538	$ –	$ –	$ 5,538
Mutual funds:				
Domestic funds	–	46,890	–	46,890
International funds	–	21,693	–	21,693
Bond funds	–	46,695	–	46,695
Hedged equity funds	–	–	6,430	6,430
Trust funds	–	125,534	–	125,534
Limited partnerships	–	–	20,624	20,624
Total	$ 5,538	$ 240,812	$ 27,054	$ 273,404

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Hedged equity funds	**Limited partnerships**	**Total**
Balance at December 31, 2010	**$ 6,430**	**$ 20,624**	**$ 27,054**
Actual return on plan assets:			
Relating to assets still held at reporting date	**116**	**(878)**	**(762)**
Relating to assets sold during the period	**–**	**–**	**–**
Purchases, sales and settlements	**–**	**–**	**–**
Transfers in and/or out of Level 3	**–**	**–**	**–**
Balance at December 31, 2011	**$ 6,546**	**$ 19,746**	**$ 26,292**

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Hedged equity funds	Limited partnerships	Total
Balance at December 31, 2009	$ 6,264	$ 19,302	$ 25,566
Actual return on plan assets:			
Relating to assets still held at reporting date	166	1,322	1,488
Relating to assets sold during the period	–	–	–
Purchases, sales and settlements	–	–	–
Transfers in and/or out of Level 3	–	–	–
Balance at December 31, 2010	$ 6,430	$ 20,624	$ 27,054

During 2011, $21.7 million in the International Fund transferred from Level 2 to Level 1. There were no other transfers between Levels 1, 2, and 3 for the years presented.

Concentrations of Credit Risk

Plan assets are diversified into various investment types as shown in the preceding table. An investment consultant is utilized to ensure the diversification of assets. The assets are spread among numerous fund managers. Diversification is also obtained by selecting fund managers whose funds are not concentrated in individual stocks and, in the case of international funds, funds are not concentrated in individual countries.

Valuation Techniques

Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets would be classified as Level 1. Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with observable market data would be classified as Level 2. In addition, assets measured at Net Asset Value (NAV) per share and which we have the ability to redeem at NAV per share at the measurement date are classified as level 2. Unobservable inputs (e.g., a company's own assumptions and data) and assets measured at NAV per share which we do not have the ability to redeem at NAV per share at the measurement date would be classified as Level 3. All assets are evaluated at the fund level.

Contributions

AgVantis and combined Associations expect to contribute $16.8 million to the pension plans and $608 thousand to the Retiree Medical Plan in 2012. Due to the CoBank/AgBank merger on January 1, 2012, Bank participants in these plans and the related assets and liabilities will be transferred to the CoBank benefit plans and the Bank will make no contributions to the Ninth or the Eleventh pension plans or to the Retiree Medical Plan in 2012.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the Ninth Plans and the Eleventh Plans and the Retiree Medical Plan. Due to the CoBank/AgBank merger on January 1, 2012, Bank participants in these plans and the related assets and liabilities will be transferred to the CoBank benefit plans and as a result these future benefit payments would likely be lower.

	Pension Benefits	Other Benefits
2012	$ 24,188	$ 608
2013	$ 25,561	$ 563
2014	$ 27,342	$ 551
2015	$ 29,824	$ 562
2016	$ 33,283	$ 566
2017-2021	$ 175,878	$ 2,965

Defined Contribution Plans

Most AgBank, AgVantis and Association employees participate in the Foundations 401(k) Plan. Employees hired on or after January 1, 2007 are eligible to participate only in the Foundations 401(k) Plan and are not eligible to participate in a pension or other postretirement plan. The Foundations 401(k) Plan requires the employers to match a percentage of employee contributions. For employees hired before January 1, 2007 and eligible under one of the pension plans, employee contributions are matched dollar for dollar up to 2.0 percent and 50 cents on the dollar on the next 4.0 percent on both pre-tax and post-tax contributions. The maximum employer match is 4.0 percent. For employees hired after December 31, 2006 and for those employees not eligible for one of the pension plans, District entities contribute 3.0 percent of employee's compensation and will match employer contributions dollar for dollar up to a maximum of 6.0 percent on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0 percent. AgBank's, AgVantis' and Associations' employer contributions to the Foundations 401(k) Plan were $12.0 million, $10.7 million, and $10.3 million for 2011, 2010 and 2009, respectively.

Nonqualified Deferred Compensation Plans (NQDC)

Certain eligible employees are able to voluntarily elect to defer a portion of their compensation for tax purposes under the NQDC subject to Internal Revenue Code 409A requirements. Participation is limited to employees whose annual base compensation equals or exceeds 70 percent or whose total compensation equals or exceed 80% of the Internal Revenue System annual limit on compensation.

NOTE 11 - RELATED PARTY TRANSACTIONS

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

The following table details information on loans made to such persons.

	2011	2010	2009
Total loans with officers and directors	**$ 708,625**	$ 728,116	$ 706,388
New loans made	**$ 875,598**	$ 676,657	$ 791,751
Repayments	**$ 899,611**	$ 664,557	$ 777,435
Other [1]	**$ 4,522**	$ 9,628	$ (59,939)

[1] Other is net of new directors' and resigned directors' loan balances.

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2011 involved more than a normal risk of collectability. Of the total loans to officers and directors in 2010, mortgage and operating loans to one Association director totaling $5.9 million at December 31, 2010 was considered to involve more than normal risk of collectability as determined by the Association. The loans' classification to substandard was due to declining debt repayment capacity. The largest indebtedness of these loans during 2010 was $12.9 million. All loans were current at December 31, 2010. The Association's director's loans were upgraded to special mention classification (OAEM) effective February 2011 due to improved operating results and an improvement in debt repayment capacity. At December 31, 2011, the director's loans remain classified as OAEM and have an outstanding balance of $4.3 million.

AgBank and certain Associations purchased technical and systems support from AgVantis during 2011, 2010, and 2009. The AgVantis Board of Directors is comprised of six elected directors, which are CEOs of the Associations, one director who was an officer of AgBank appointed by the AgBank CEO, and one Association director appointed by the other Board members.

NOTE 12 - REGULATORY ENFORCEMENT MATTERS

No FCA regulatory enforcement actions currently exist within the District.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Bank and Associations have various contingent liabilities and commitments outstanding. While primarily liable for its portion of Systemwide Debt Securities, the Bank is jointly and severally liable for the Systemwide Debt Securities of the other System Banks. The total Systemwide Debt Securities of the System at December 31, 2011 were $184.78 billion.

The Bank and Associations may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of their borrowers. These financial instruments include commitments to extend credit and commercial letters of credit and involve, to varying degrees, credit risk in excess of the amount recognized in the combined financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the agreement. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2011, $7.74 billion of commitments to extend credit and $13.8 million of commercial letters of credit were outstanding.

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

The Bank and Associations also participate in standby letters of credit to satisfy the financing needs of their borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2011, the District had $127.1 million of standby letters of credit.

At December 31, 2011, various lawsuits were pending against certain Associations in which claims for monetary damages were asserted. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions would not be significant in relation to the combined financial position of the Bank, Associations, and AgVantis.

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The District maintains an overall interest rate risk management strategy that incorporates the use of derivative products by the Bank to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Bank's goals are to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Bank's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged floating-rate assets and liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the Bank's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The Bank considers the strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk created by changes in interest rates.

The Bank enters into derivative transactions, particularly interest rate swaps, to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. The Bank may also enter into derivatives with their customers as a service to enable them to transfer, modify or reduce their interest rate risk by transferring this risk to the Bank. The Bank substantially offsets this risk by concurrently entering into offsetting agreements with non-System institutional counterparties. Interest rate swaps may allow the Bank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the Bank if floating rate borrowing were made directly. Under interest rate swap arrangements, the Bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index. A substantial amount of the District's assets are interest-earning assets (principally loans and investments) that tend to be medium-term floating-rate instruments while the related interest-bearing liabilities tend to be short- or medium-term fixed rate obligations. Given this asset-liability mismatch, interest rate swaps in which the Bank pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on the Bank's net interest income. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, the Bank also enters into swaps in which it receives the floating rate and pays the fixed rate (pay fixed swaps) when necessary to reduce its net position.

The Bank also purchases interest rate options, such as caps, in order to reduce the impact of rising interest rates on floating-rate debt, and floors, in order to offset the impact of falling interest rates on floating-rate assets. Additionally, foreign exchange derivatives are used to protect the Bank from changes in foreign currency exchange rates between a borrower advance and borrower payment.

The notional value of primary types of derivative instruments used and the amount of activity during the period is summarized in the following table:

(in millions)	Receive-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2011	$ 1,385.0	$ 1,285.0	$ 2,670.0
Additions	220.0	350.0	570.0
Maturities	(225.0)	(170.0)	(395.0)
Terminations	(100.0)	–	(100.0)
Balance at December 31, 2011	$ 1,280.0	$ 1,465.0	$ 2,745.0

By using derivative instruments, the Bank exposes itself to credit risk and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Bank, thus creating a repayment (credit) risk for the Bank. When the fair value of the derivative contract is negative, the Bank owes the counterparty.

To minimize the risk of credit losses, the Bank selects only counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing and levels of exposure to individual counterparties. The

Bank has derivative transactions with seven counterparties, five of which represent approximately 90 percent of the total notional amount of these derivatives. The Bank does not anticipate nonperformance by any of these current counterparties. The Bank enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. Derivative contracts are reflected in the financial statements on a gross basis regardless of the netting agreement. Another way the Bank minimizes the risk of credit losses from derivatives is that the derivative contracts are supported by bilateral collateral support agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to the other one are reached, which thresholds may vary depending on the counterparty's credit rating. The Bank's exposure to counterparties, net of collateral, was $36.9 million at December 31, 2011 and $58.2 million at December 31, 2010. At December 31, 2011, AgBank held $12.8 million of cash and $35.7 million in investment securities as collateral with respect to these arrangements. At December 31, 2010, AgBank held $380 thousand of cash and $25.2 million in investment securities. At December 31, 2009, AgBank held $1.8 million of cash and $25.2 million in investment securities. As of December 31, 2011, 2010 and 2009, AgBank did not owe any counterparties, so no counterparties had exposure to AgBank. Accordingly, AgBank was not required to post collateral as of December 31, 2011, 2010 or 2009.

AgBank's derivative activities were monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of AgBank's asset/liability and treasury functions. AgBank's ALCO was responsible for approving hedging strategies that were developed within parameters established by AgBank's board of directors. The resulting hedging strategies were then incorporated into AgBank's overall interest rate risk management strategies.

The table below includes details of the derivative assets and derivative liabilities reflected on the Statement of Condition as of December 31. AgBank did not apply master netting agreements for financial statement disclosure.

	2011		2010	
	Assets Fair Value	Liabilities Fair Value	Assets Fair Value	Liabilities Fair Value
Derivatives designated as hedging instruments under GAAP:				
Receive-fixed swaps	**$ 68,606**	**$ –**	$ 68,190	$ 2,938
Interest rate caps	**9,964**	**–**	10,028	–
Total derivatives	**$ 78,570**	**$ –**	$ 78,218	$ 2,938

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. AgBank included the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the gain on interest rate swaps recognized in interest expense for the year ended December 31, 2011 was $3.3 million, while the amount of the loss on the hedged Systemwide Debt Securities was $1.5 million. Gains and losses on derivatives that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Included in the 2010 gain on the receive-fixed swaps in the following table is $1.4 million as a result of a called debt issuance that had been initially hedged by a derivative. The derivative was written off in 2008 when the counterparty declared bankruptcy and the offsetting hedge adjustment on the debt was being amortized over the remaining life of the debt.

The following table sets forth the effect of the fair value derivative instruments on the Statement of Income for the period ended December 31:

Derivatives – Fair Value Hedging Relationships	Location of Gain Recognized in Statement of Income	Amount of Gain Recognized in the Statement of Income **2011**	2010
Receive-fixed swaps	Interest Expense	**$ 1,830**	$ 1,222
Total		**$ 1,830**	$ 1,222

Cash Flow Hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. The following table includes the effect of the cash flow derivative instruments on the Statement of Income for the period ended December 31:

Derivatives – Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) 2011	2010	Location of Gain or Loss Reclassification from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) 2011	2010
Interest rate caps	**$ (7,919)**	$ (9,463)	Interest Expense	**$ (1,499)**	$ (3,323)
Forward starting swaps	–	–	Interest Expense	**468**	383
Total	**$ (7,919)**	$ (9,463)		**$ (1,031)**	$ (2,940)

AgBank did not recognize any gain or loss into income on derivatives related to the ineffective portion on its cash flow hedging relationships.

Derivatives not Designated as Hedges

For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings. The following table includes the effect of the derivative instruments not designated as hedging instruments on the Statement of Income for the period ended December 31:

Derivatives Not Designated as Hedging Instruments	Location of Loss Recognized in Statement of Income	Amount of Loss Recognized in the Statement of Income 2011	2010
Foreign exchange contracts	Other noninterest income	**$ –**	$ (2)
Total		**$ –**	$ (2)

NOTE 15 – FAIR VALUE MEASUREMENTS

Accounting 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. The fair value measurement is not an indication of liquidity. See Note 2 – Summary of Significant Accounting Policies for additional information.

Assets and liabilities measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized below:

2011	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale				
U.S. Treasury securities	**$ –**	**$ 501,312**	**$ –**	**$ 501,312**
Mortgage-backed securities				
U.S. Government guaranteed	**–**	**1,807,355**	**–**	**1,807,355**
Private Label - FHA/VA reperformers	**–**	**766,433**	**89,148**	**855,581**
Federal agency guaranteed	**–**	**1,089,280**	**–**	**1,089,280**
Non-agency	**–**	**–**	**151,775**	**151,775**
FDIC insured bank debt	**–**	**142,846**	**–**	**142,846**
Non-agency asset-backed securities	**–**	**–**	**62,658**	**62,658**
Farmer Mac securities	**–**	**–**	**369,720**	**369,720**
Derivative assets	**–**	**78,570**	**–**	**78,570**
Assets held in nonqualified benefits trust	**25,288**	**–**	**–**	**25,288**
Total assets	**$ 25,288**	**$ 4,385,796**	**$ 673,301**	**$ 5,084,385**
Liabilities:				
Collateral liabilities	**$ 12,840**	**$ –**	**$ –**	**$ 12,840**
Total liabilities	**$ 12,840**	**$ –**	**$ –**	**$ 12,840**

2010	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale				
U.S. Treasury securities	$ –	$ 552,111	$ –	$ 552,111
Mortgage-backed securities				
U.S. Government guaranteed	–	1,880,625	–	1,880,625
Private Label - FHA/VA reperformers	–	–	1,045,201	1,045,201
Federal agency guaranteed	–	469,315	–	469,315
Non-agency	–	–	199,429	199,429
FDIC insured bank debt	–	178,418	–	178,418
Non-agency asset-backed securities	–	–	82,120	82,120
Farmer Mac securities	–	–	424,431	424,431
Derivative assets	–	78,218	–	78,218
Assets held in nonqualified benefits trust	24,589	–	–	24,589
Total assets	$ 24,589	$ 3,158,687	$ 1,751,181	$ 4,934,457
Liabilities:				
Derivative liabilities	$ –	$ 2,938	$ –	$ 2,938
Collateral liabilities	380	–	–	380
Total liabilities	$ 380	$ 2,938	$ –	$ 3,318

2009	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale				
U.S. Treasury securities	$ –	$ 402,644	$ –	$ 402,644
Mortgage-backed securities				
U.S. Government guaranteed	–	1,544,430	–	1,544,430
Private Label - FHA/VA reperformers	–	–	1,132,921	1,132,921
Federal agency guaranteed	–	918,355	–	918,355
Non-agency	–	–	273,338	273,338
FDIC insured bank debt	–	178,670	–	178,670
Non-agency asset-backed securities	–	–	117,715	117,715
Farmer Mac securities	–	–	492,724	492,724
Derivative assets	–	67,989	–	67,989
Assets held in nonqualified benefits trust	26,750	–	–	26,750
Total assets	$ 26,750	$ 3,112,088	$ 2,016,698	$ 5,155,536
Liabilities:				
Derivative liabilities	$ –	$ 1,050	$ 249	$ 1,299
Collateral liabilities	1,811	–	–	1,811
Total liabilities	$ 1,811	$ 1,050	$ 249	$ 3,110

The table below represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using at least one significant unobservable input (Level 3) for the year ended December 31. Amounts designated as included in earnings are recorded in interest income, net impairment loss recognized in earnings, and loss on sale of investment securities.

	Total Fair Value Measurement			
	Mortgage-backed securities	Asset-backed securities	Farmer Mac securities	Derivative Liabilities
Balance at December 31, 2010	**$ 1,244,630**	**$ 82,120**	**$ 424,431**	**$ –**
Total gains or (losses) realized/unrealized:				
Included in earnings	**(20,188)**	**(2,294)**	**–**	**–**
Included in other comprehensive income	**(21,165)**	**(320)**	**1,199**	**–**
Sales	**(798)**	**(5)**	**–**	**–**
Settlements	**(165,279)**	**(16,843)**	**(55,910)**	**–**
Transfers in and/or (out) of Level 3	**(796,277)**	**–**	**–**	**–**
Balance at December 31, 2011	**$ 240,923**	**$ 62,658**	**$ 369,720**	**$ –**
The amount of gains or (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2011	**$ (21,017)**	**$ (2,294)**	**$ –**	**$ –**
Balance at December 31, 2009	$ 1,406,259	$ 117,715	$ 492,724	$ 249
Total gains or (losses) realized/unrealized:				
Included in earnings	(5,555)	(9,924)	–	–
Included in other comprehensive income	106,034	23,421	(3,161)	–
Settlements	(262,108)	(49,092)	(65,132)	(249)
Balance at December 31, 2010	$ 1,244,630	$ 82,120	$ 424,431	$ –
The amount of gains or (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2010	$ (6,256)	$ (8,558)	$ –	$ –
Balance at December 31, 2008	$ 3,813,105	$ 258,728	$ 557,935	$ 256
Total gains or (losses) realized/unrealized:				
Included in earnings	(28,147)	(10,868)	–	(7)
Included in other comprehensive income	(131,321)	36,319	(3,053)	–
Settlements	(632,535)	(166,464)	(62,158)	–
Transfers in and/or (out) of Level 3	(1,614,843)	–	–	–
Balance at December 31, 2009	$ 1,406,259	$ 117,715	$ 492,724	$ 249
The amount of gains or (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2009	$ (28,147)	$ (8,268)	$ –	$ (7)

During 2011, the District recorded no transfers in or out of Level 1 and transferred mortgage-backed securities of $796.3 million from Level 3 to Level 2. The transfer was due to the recent availability of quoted prices from a pricing service. Transfers between levels occur at the end of a month. Beginning in 2009, certain securities that are Federal Agency mortgage-backed securities were transferred out of Level 3 to Level 2. It was determined that the valuations for these securities would be made by a third-party pricing service. The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held are typically a result of other-than-temporary impairment loss.

Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair	Total
2011	**Level 1**	**Level 2**	**Level 3**	**Value**	**Gains/(Losses)**
Assets:					
Loans	**$ –**	**$ –**	**$ 446,516**	**$ 446,516**	**$ (32,922)**
Other property owned	**$ –**	**$ –**	**$ 93,469**	**$ 93,469**	**$ (9,081)**
2010					
Assets:					
Loans	$ –	$ –	$ 648,821	$ 648,821	$ (39,559)
Other property owned	$ –	$ –	$ 123,566	$ 123,566	$ (4,387)
2009					
Assets:					
Loans	$ –	$ –	$ 1,013,574	$ 1,013,574	$ (54,297)
Other property owned	$ –	$ –	$ 56,724	$ 56,724	$ (2,882)

There were no liabilities measured at fair value on a non-recurring basis for the periods presented.

Valuation Techniques

As more fully discussed in Note 2 – Summary of Significant Accounting Policies, accounting 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 presents a brief summary of the valuation techniques used for the Bank's and Associations' assets and liabilities subject to fair value measurement.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. The District does not hold any investment securities that would be Level 1. If quoted prices are not available in an active market, the fair value of a security is estimated using a pricing model with observable inputs or a quoted price for a similar security received from a pricing service and is classified as Level 2. For the District, this would include U.S. Treasury securities, federal agency mortgage-backed securities, U.S. government guaranteed mortgage-backed securities, FDIC insured bank debt and certain private label FHA/VA reperformer mortgage-backed securities held by AgBank.

Where there is limited activity or less transparency around inputs to the valuation, securities are classified as Level 3. For these Level 3 securities, the District utilizes a pricing service, an independent third-party service provider, or a widely recognized asset liability management tool. Necessary inputs to the asset liability management tool include yield curves, volatility, prepayment speeds, and market spreads. Securities classified within Level 3 include certain private label FHA/VA reperformer mortgage-backed securities, non-agency mortgage-backed securities, asset-backed securities, and agricultural mortgage-backed securities issued by Farmer Mac.

It has been determined that the District's asset-backed securities and non-agency mortgage-backed securities exist in inactive markets under the current economic environment. As there is no observable market for the asset-backed securities and the non-agency mortgage-backed securities, the District's valuation process is an average of a valuation determined by a third party service provider using discounted cash flows and a pricing service quote. Certain private label FHA/VA reperformer mortgage-backed securities are valued by using the average prices for similar securities provided by a pricing service. Farmer Mac securities are backed by agricultural mortgage loans for which there are no available quotes. Significant inputs to an asset liability management tool used for valuation that are observable include the LIBOR yield curve and volatility. Significant inputs that are not observable include market spreads and prepayment speeds which are derived by correlations and assumptions. Therefore, these securities are classified as Level 3.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange and the District does not hold exchange-traded derivatives.

The District's derivative positions are generally over-the-counter issuances and are valued using internally developed models that use as their basis readily observable market parameters such as benchmark interest rate curves, volatility and other inputs that are observable directly or indirectly in the marketplace. These derivatives are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options.

District entities may also hold derivatives that are valued based upon models with at least one significant unobservable market parameters and that are normally traded less actively or have one-sided trade activity. These are classified within Level 3 of the valuation hierarchy.

Assets held in nonqualified benefits trust

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Collateral liabilities

Substantially all derivative contracts are supported by bilateral collateral agreements with counterparties which require the posting of collateral in the event certain dollar thresholds of credit exposure are reached. The collateral posted is generally cash. The market value of a collateral liability is its cash value.

Loans – Fair Value on a Nonrecurring Basis

For certain impaired loans, the fair value is based upon the underlying collateral since the loans are 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 result, 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 and the net loan is reported at its fair value.

For loans acquired through an Association merger, the fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Fair value of loans in nonaccrual status is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows.

Other Property Owned

Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

NOTE 16 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the District's financial instruments.

	December 31					
	2011		2010		2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans and notes receivable, net	**$ 24,233,443**	**$ 24,621,365**	$ 24,188,681	$ 24,388,226	$ 23,833,415	$ 24,071,706
Cash	**$ 353,287**	**$ 353,287**	$ 330,341	$ 330,341	$ 255,927	$ 255,927
Eligible investment securities	**$ 3,894,528**	**$ 3,894,528**	$ 3,898,545	$ 3,898,545	$ 4,332,816	$ 4,332,816
Mission-related and other investments	**$ 1,312,984**	**$ 1,321,404**	$ 1,196,594	$ 1,204,594	$ 1,025,887	$ 1,031,909
Derivative assets	**$ 78,570**	**$ 78,570**	$ 78,218	$ 78,218	$ 67,989	$ 67,989
Assets held in nonqualified benefits trust	**$ 25,288**	**$ 25,288**	$ 24,589	$ 24,589	$ 26,750	$ 26,750
Financial liabilities:						
Systemwide debt securities	**$ 23,601,900**	**$ 24,302,230**	$ 23,881,678	$ 24,340,698	$ 24,229,005	$ 24,557,948
Other bonds and notes	**$ 955,509**	**$ 955,510**	$ 804,248	$ 804,164	$ 793,186	$ 793,051
Derivative liabilities	**$ –**	**$ –**	$ 2,938	$ 2,938	$ 1,299	$ 1,299
Collateral liabilities	**$ 12,840**	**$ 12,840**	$ 380	$ 380	$ 1,811	$ 1,811
Unrecognized financial instruments:						
Commitments to extend credit	**$ –**	**$ 760**	$ –	$ 707	$ –	$ 419
Standby letters of credit	**$ –**	**$ 1,359**	$ –	$ 1,293	$ –	$ NA

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

Loans and Notes Receivable: Fair value is estimated by discounting the expected future cash flows using the Bank's and/or the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. Since the discount rates are based on the District's current loan origination rates as well as management estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining the fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. Fair value of loans in nonaccrual status is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows.

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

Eligible Investment Securities: If an active market exists, the fair value is derived from multiple sources, including nationally recognized pricing providers and the Bank's internal valuation model. For those securities for which an active market does not exist, the fair value is determined as described in Note 15.

Mission-related and Other Investments: The fair value is estimated by calculating the discounted value of the expected future cash flows.

Assets held in nonqualified benefits trust: These assets relate to deferred compensation and supplemental retirement plans. As discussed in Note 15, the fair value of these assets is determined by quoted net asset values.

Systemwide Debt Securities and Other Bonds and Notes: Bonds and notes at times may not be regularly traded; thus, quoted market prices may not be available. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between System debt instruments and Treasury issues.

Derivative Financial Instruments: The fair value of derivative financial instruments (asset and liability) is the estimated amount that would be received or paid to terminate the agreement at the reporting date, considering current interest rates and the current credit worthiness of the counterparties.

Collateral liabilities: The carrying value is the cash collateral received from derivative counterparties and is a reasonable estimate of fair value.

Commitments to extend credit and Standby Letters of Credit: The fair value of commitments reflects the estimated gain/(loss) assuming undrawn loan commitments are recorded as new loan volume on the fair value measurement date, and considers the difference between current levels of interest rates and the committed rates. The fair value of the standby letters of credit represents discounted fee income cash flows. The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

NOTE 17 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

	2011				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 201,783**	**$ 201,606**	**$ 207,352**	**$ 206,144**	**$ 816,885**
(Provision for loan losses)/Loan loss reversal	**(6,488)**	**(3,702)**	**4,458**	**(17,511)**	**(23,243)**
Noninterest expense, net	**(61,571)**	**(75,703)**	**(68,669)**	**(79,555)**	**(285,498)**
Net income	**$ 133,724**	**$ 122,201**	**$ 143,141**	**$ 109,078**	**$ 508,144**

	2010				
	First	Second	Third	Fourth	Total
Net interest income	$ 190,449	$ 196,799	$ 203,732	$ 209,373	$ 800,353
Provision for loan losses	(18,384)	(12,673)	(15,946)	(4,251)	(51,254)
Noninterest expense, net	(29,267)	(64,319)	(65,487)	(78,583)	(237,656)
Net income	$ 142,798	$ 119,807	$ 122,299	$ 126,539	$ 511,443

	2009				
	First	Second	Third	Fourth	Total
Net interest income	$ 167,466	$ 183,223	$ 180,493	$ 192,997	$ 724,179
Provision for loan losses	(30,296)	(21,057)	(17,775)	(17,741)	(86,869)
Noninterest expense, net	(61,491)	(84,718)	(67,504)	(99,270)	(312,983)
Net income	$ 75,679	$ 77,448	$ 95,214	$ 75,986	$ 324,327

NOTE 18 - BANK ONLY FINANCIAL DATA

AgBank's condensed financial information follows:

Statement of Condition

	December 31		
	2011	2010	2009
Loans to Associations	**$ 18,943,758**	$ 19,272,988	$ 19,341,897
Loans to others	**709,397**	917,259	875,704
Less: allowance for loan losses	**1,504**	2,504	5,077
Net loans	**19,651,651**	20,187,743	20,212,524
Cash and investment securities	**5,107,921**	4,942,674	5,054,063
Other assets	**301,389**	255,601	282,862
Total assets	**$ 25,060,961**	$ 25,386,018	$ 25,549,449
Systemwide debt securities	**$ 23,601,900**	$ 23,881,678	$ 24,229,005
Other liabilities	**200,438**	137,640	179,192
Total liabilities	**23,802,338**	24,019,318	24,408,197
Preferred stock	**225,000**	225,000	225,000
Stock	**885,815**	631,379	624,053
Retained earnings	**407,057**	717,942	618,516
Accumulated other comprehensive income/(loss)	**(259,249)**	(207,621)	(326,317)
Total shareholders' equity	**1,258,623**	1,366,700	1,141,252
Total liabilities and shareholders' equity	**$ 25,060,961**	$ 25,386,018	$ 25,549,449

Statement of Income

	For the Year Ended December 31		
	2011	2010	2009
Interest income	**$ 514,189**	$ 606,697	$ 709,377
Interest expense	**366,102**	454,425	597,981
Net interest income	**148,087**	152,272	111,396
(Loan loss reversal)/Provision for loan losses	**(519)**	(2,591)	1,876
Net interest income after (loan loss reversal)/provision for loan losses	**148,606**	154,863	109,520
Noninterest income	**43,289**	43,447	23,893
Noninterest expense			
Salaries and employee benefits	**17,681**	19,008	18,456
Occupancy and equipment expense	**2,745**	2,686	2,631
Insurance fund premium	**605**	564	6,017
Other operating expense	**9,880**	11,598	10,727
Merger-related costs	**4,376**	1,012	–
Loss on sale of investment securities	**261**	666	2,600
Loss on investment impairment	**23,311**	16,057	36,415
Gain on early extinguishment of debt	**(102)**	–	–
Concession expense write-off on called debt	**3,952**	10,112	7,887
Net income	**$ 129,186**	$ 136,607	$ 48,680

AgBank declared patronage of $76.1 million in December 2011 for 2011 earnings which is to be paid in 2012. In March 2011, AgBank declared and distributed cash patronage to Associations of $104.6 million based on 2010 earnings. AgBank patronage distributions to Associations were $23.4 million paid in March 2010 for 2009 earnings, and $4.5 million in priority patronage paid in 2009. For the three years presented, all patronage was paid in cash. In 2011 and 2010, patronage was paid annually. In 2009, patronage was paid annually rather than quarterly, except for certain priority patronage.

Associations are currently required to own and maintain an investment in the Bank equities equal to 5.00 percent of their wholesale loan volume (the "Required Investment"). The Bank equities include stock, whether purchased or received in a patronage refund, and attributed surplus.

Pursuant to the merger between CoBank and AgBank, AgBank undertook a recapitalization transaction on December 31, 2011 in order to align all Associations with CoBank's stock investment requirement. The recapitalization involved the tax-free issuance of AgBank common stock to each Association in exchange for an equal amount of attributed surplus previously allocated on a patronage basis to such Association. The attributed surplus was a Bank equity representing prior year earnings. The exchange resulted in a distribution from retained earnings of $246.0 million and an increase in capital stock. This transaction was eliminated in combination.

All intercompany balances and transactions are eliminated in combination.

NOTE 19 - ADDITIONAL DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS DISCLOSURES

The table below provides information about derivatives and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information below represents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information below represents the notional amounts and weighted average interest rates by expected maturity dates. This table was prepared using the implied forward yield curve at December 31, 2011.

Maturities of 2011 Derivative Products and Other Financial Instruments

December 31, 2011 *(dollars in millions)*	2012	2013	2014	2015	2016	After 2017	Total	Fair Value
Systemwide Debt Securities:								
Fixed rate debt	$ 3,285	$ 1,662	$ 1,161	$ 1,279	$ 817	$ 2,898	$ 11,102	$ 11,720
Weighted average interest rate	1.21%	2.83%	2.31%	2.62%	3.49%	4.29%	2.70%	
Variable rate debt	$ 4,662	$ 4,908	$ 1,981	$ 706	$ 184	$ 59	$ 12,500	$ 12,582
Weighted average interest rate	0.34%	0.30%	0.35%	0.29%	0.31%	0.15%	0.32%	
Derivative Instruments:								
Receive fixed swaps								
Notional value	$ 175	$ 435	$ 150	$ 420	$ 50	$ 50	$ 1,280	$ 69
Weighted average receive rate	2.70%	2.69%	2.41%	2.68%	5.18%	4.95%	2.84%	
Weighted average pay rate	0.83%	0.15%	1.00%	1.73%	2.19%	2.59%	1.04%	
Interest rate caps								
Notional value	$ 130	$ 90	$ 310	$ 225	$ 125	$ 585	$ 1,465	$ 10
Total notional value	$ 305	$ 525	$ 460	$ 645	$ 175	$ 635	$ 2,745	$ 79
Total weighted average rates on swaps:								
Receive rate	2.70%	2.69%	2.41%	2.68%	5.18%	4.95%	2.84%	
Pay rate	0.83%	0.15%	1.00%	1.73%	2.19%	2.59%	1.04%	

NOTE 20 –SUBSEQUENT EVENTS

The District entities have evaluated subsequent events through March 15, 2012, which is the date the financial statements were available to be issued, and no material subsequent events were identified other than the mergers. On January 1, 2012, U.S. AgBank, FCB, merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB, another Farm Credit System Bank. On January 1, 2012, Farm Credit of the Mountain Plains, ACA headquartered in Greeley, Colorado merged into American AgCredit, ACA.

Compensation Discussion and Analysis

(Amounts in whole dollars)

The Compensation Committee of the board of directors of U.S. AgBank followed a comprehensive compensation philosophy where the objectives of the U.S. AgBank Executive Compensation Plans (Plans) were to:

- Provide market based compensation through base salary, and annual and long-term incentive components that will allow AgBank to attract, motivate and retain superior executive talent;
- Place a significant portion of total compensation for the executive at risk and contingent upon AgBank remaining sound financially and meeting established performance goals; and
- Ensure long-term financial stability of AgBank is emphasized over short-term results and decisions.

The Plans were designed to:

- Reward successful business year results through an Annual Incentive Plan;
- Foster AgBank long-term financial stability through the Long-Term Incentive Plan; and
- Significantly contribute to the retention of the CEO and other Senior Officers.

The Compensation Committee annually reviewed market information related to the level and mix of salaries, benefits, and incentive plans for the CEO and other Senior Officers. Certain executives participated in U.S. AgBank's Executive Incentive Plans, which included an Annual Incentive Plan component and a Long-Term Incentive Plan component. The Compensation Committee considered an Executive Incentive Plan on an annual basis for all Senior Officers, except the CEO. The CEO did not participate in the Executive Incentive Plans. The CEO's compensation is described in the discussion below, regarding the CEO Employment Agreement. Due to the cooperative business structure of AgBank, the Plans do not contain stock-based compensation components.

The Annual Incentive Plan performance factors and the weightings used in 2011 were earnings (30%), credit quality and charge-offs (25%), operating efficiency (10%), service quality (10%), and a Board discretionary rating (25%). The Long-Term Incentive Plan was linked to the long-term stability of AgBank. This long-term stability was determined through the establishment of a minimum Contractual Interbank Performance Agreement (CIPA) score, which was exceeded at year end. Additionally, AgBank provided a comprehensive and market-based package of employee benefits for health and welfare and for retirement purposes. The employee benefits provided to the CEO and other Senior Officers were through the same benefit plans as were offered to other similarly situated employees. In addition, some retirement benefits that were limited due to restrictions in the Internal Revenue Code (Code) were restored for the CEO and other AgBank executives through one or more nonqualified retirement plans and/or employment agreements.

Summary Compensation Table

	Year	Base Salary	Annual Incentive Compensation (1)	Long-Term Incentive Compensation (2)	All Other Compensation (3)	Total
Darryl W. Rhodes, CEO	2011	$ 500,000	$ 150,000	$ 200,000	$ 1,706,172	$ 2,556,172
Darryl W. Rhodes, CEO	2010	$ 500,000	$ 150,000	$ 200,000	$ 2,151,262	$ 3,001,262
Darryl W. Rhodes, CEO	2009	$ 500,000	$ 150,000	$ 200,000	$ 1,244,268	$ 2,094,268
7 other Senior Officers (4)	2011	$ 1,622,743	$ 672,500	$ 251,600	$ 429,463	$ 2,976,306
6 other Senior Officers	2010	$ 1,375,480	$ 463,500	$ 554,000	$ 167,821	$ 2,560,801
5 other Senior Officers	2009	$ 1,146,000	$ 75,500	$ 415,000	$ 163,237	$ 1,799,737

(1) In 2011, annual incentive compensation included critical project incentives of $460,000 related to additional efforts associated with the merger with CoBank and in 2010, included critical project incentives of $235,000 with regard to the strategic planning project undertaken by the AgBank Board.

(2) The 2011 amount for the other Senior Officers' Long-Term Incentive Compensation was lower than in 2009 and 2010 because of the retirement and change of employment terms of certain Senior Officers as a result of the merger with CoBank, ACB on January 1, 2012.

(3) Other compensation included company contributions for 401(k), restoration of company contributions on compensation voluntarily deferred, life and disability insurance, spousal travel, annual leave payout, and other miscellaneous expenses. As per Mr. Rhodes' December 19, 2008 employment agreement (as amended on October 8, 2010), $1.55 million of SERP payments were made to Mr. Rhodes in January 2011, $2.1 million of SERP payments were made in January 2010, and a $1.2 million SERP payment was made to him in January 2009. These are further explained in the following CEO Retirement Benefits Disclosure and reflected in the CEO Retirement Benefits Disclosure table.

(4) During 2011, AgBank's general counsel left employment at AgBank and an acting general counsel was appointed for the remainder of 2011. The compensation of each respective share of the general counsel position in 2011 was included in the compensation table and they are included as one Senior Officer.

SUMMARY COMPENSATION DISCLOSURE

Summary Compensation Table – The Base Salary, Annual Incentive Compensation, and Long-Term Incentive Compensation columns of the Summary Compensation Table include all amounts earned during 2011 regardless of whether a portion of such compensation has been deferred by the CEO or other Senior Officers' elections pursuant to the Farm Credit Foundations Defined Contribution /401(k) Plan (401(k) Plan) and the Farm Credit Foundations Nonqualified Deferred Compensation Plan (NQDC Plan). Individual compensation for any Senior Officer included here in the aggregate is available to shareholders upon written request.

All Other Compensation – The All Other Compensation column of the Summary Compensation Table is primarily comprised of company contributions to benefit plans, taxable group term life insurance premiums, and long-term disability premiums. In 2011, AgBank's employer matching contribution to the CEO's account in the 401(k) Plan was $14,696 and its contribution to the CEO's account in the NQDC Plan to restore the employer match that was limited due to restrictions in the Code and compensation deferred was $19,304. Supplemental Executive Retirement Plan (SERP) payments of $1.55 million in January 2011, $2.1 million in January 2010 and $1.2 million in January 2009 were made to the CEO and are explained further in the CEO Retirement Benefits Disclosure and reflected in the CEO Retirement Benefits Disclosure table. For 2011, AgBank's employer matching and nonelective contributions for the other Senior Officers' accounts in the 401(k) Plan were $146,029 and AgBank's contributions to their accounts in the NQDC Plan were equal to $15,534.

Annual Incentive Plans – In addition to base salary, substantially all employees and executives could earn additional incentive compensation under the Annual Incentive Plans which were gain-sharing plans tied to the overall business performance and to the employee's performance. The Annual Incentive Plans were based on the fiscal year and were designed to motivate employees and executives to exceed annual performance targets established by the Board of Directors. In 2011, performance targets were established for the following factors: Earnings, Operating Efficiency, Asset Quality, and Service Quality. In addition, the plans included provisions for the Board to evaluate AgBank's performance in other important but subjective areas of operations through a discretionary rating component.

While substantially all employees are covered by the Annual Incentive Plans, the percentage of base salary that could be earned increased at manager, Senior Officer, and executive levels. Also, the percentage of salary that could be earned was higher if the individual's performance contribution was higher.

In 2010 and 2011, additional amounts could be earned by employees (other than the CEO) for exceptional time and effort contributed to critical one-time projects. In 2011, this included effort with regard to the regulatory application, implementation, and integration work associated with the merger with CoBank and in 2010, this included effort with regard to the strategic planning project undertaken by the AgBank Board.

Long-Term Incentive Plans – The Long-Term Incentive Plan component of each year's Executive Incentive Plan provided targeted long-term awards for executives based on position and responsibilities. For each executive (other than the CEO, who did not participate in the Executive Incentive Plans), a long-term incentive award was established and communicated at the beginning of the plan term, but not paid out. The payout of the Long-Term Incentive award is three years later and is conditioned upon satisfactory performance of the executive and the Bank exceeding a minimum CIPA score as determined in the plan. This CIPA score was exceeded at year-end 2011.

AgBank, as a cooperative, had no publicly traded stock. Therefore, no stock options or other equity or stock based compensation programs have been, or can be, granted to Senior Officers.

Substantially all other employees were eligible for U.S. AgBank's Employee Long-Term Incentive Plans (named Employee Long-Term Retention Plans prior to 2011), which are a series of three 30-month plans. Under each of those plans, individual awards were established and communicated to each employee but not paid out for approximately 30 months.

Executives and employees that voluntarily terminate employment or do not maintain satisfactory performance forfeit these long-term awards.

Severance and Retention Plans – During 2010, the AgBank Board established the Employee Retention Plan as an additional incentive to retain employees. Due to the Bank's strategic planning project resulting in a decision to merge with CoBank, all non-executive employees received a retention compensation award to be paid out in March 2013. If an employee voluntarily terminates employment prior to payout, their award is forfeited. Additionally, the AgBank Board implemented the Employee Severance Program and Executive Change in Control Program as a safety net for any employee (other than the CEO, who does not participate in either program) whose employment terminates as a result of the merger.

2012 Plans – Due to the merger of AgBank and CoBank, the Annual and Long-Term Incentive Plans have been frozen at the 2011 target levels to allow for a review of the plans and an integration of AgBank employees into the CoBank compensation plans.

Expense Reimbursement – All employees are reimbursed for travel and subsistence expenses incurred when traveling on AgBank business. A copy of the travel policy is available to shareholders upon written request.

CEO Employment Agreement – Darryl W. Rhodes began serving as the CEO for AgBank on December 1, 2006. Mr. Rhodes served as AgBank's Executive Vice President-Finance from 1991 to 2006 and has been in various other credit and management positions during his 39 years in the District. The Board of Directors reviews Mr. Rhodes' performance semi-annually. Mr. Rhodes was employed during 2011 pursuant to a December 19, 2008 employment agreement (Employment Agreement) that expired on December 31, 2011. This Employment Agreement replaced the January 31, 2007 employment agreement. The objective of the 2008 Employment Agreement was to extend Mr. Rhodes' employment with AgBank and to provide for a transition period in the event of Mr. Rhodes' retirement. This was done primarily by eliminating uncertainties related to future incentives and by restructuring the non-qualified retirement benefits. On October 8, 2010, the 2008 Employment Agreement was amended. The purpose of the 2010 amendment was generally to remove any financial incentive for Mr. Rhodes to favor a particular result in the merger discussions with CoBank, ACB. For each year of the Employment Agreement, base salary was set at $500,000, the annual incentive award was set at $150,000, and the long-term incentive award was set at $200,000. For this reason, Mr. Rhodes was not a participant in the Executive Incentive Plans or in any other merit, bonus, or incentive plans. The Employee Agreement required Mr. Rhodes to maintain satisfactory performance.

Under the Employment Agreement, each annual incentive payment became vested over a 1-year period beginning on January 1 of the year awarded, and each long-term incentive payment became vested over a 3-year period beginning on January 1 of the year awarded. Vesting of those payments ceased upon Mr. Rhodes' termination of employment on December 31, 2011. Therefore, Mr. Rhodes will receive all of his 2011 annual incentive payment, all of the 2009 long-term incentive payment, two-thirds of the 2010 long-term incentive payment, and one-third of the 2011 long-term incentive payment.

CEO RETIREMENT BENEFITS DISCLOSURE

The following table presents a summary of the total retirement benefits from all retirement plans applicable to the CEO as of December 31, 2011. The CEO meets the eligibility requirements for an unreduced retirement benefit.

	Plan Name	Number of years of credited service*	Value of accumulated benefit at 12/31/10	Change in Pension Value	Value of accumulated benefit at 12/31/11	Payments during 2011
Darryl W. Rhodes	Ninth Farm Credit District Pension Plan	41.24	$ 1,677,420	$ 150,146	$ 1,827,566	None
	Supplemental Executive Retirement Plan (SERP)		3,100,000	(1,100,000)	2,000,000	$ 1,100,000
	Contingent SERP		450,000	0	450,000	450,000
	Total		$ 5,227,420	$(949,854)	$ 4,277,566	$ 1,550,000

*Includes service added for unused accrued sick leave

Retirement Plan Overview – The U.S. AgBank President and CEO participates in two defined benefit retirement plans: (a) the Ninth Farm Credit District Pension Plan (the Pension Plan), which is a qualified defined benefit plan; and (b) a Supplemental Executive Retirement Plan (SERP), which is a nonqualified retirement plan. Additionally, Mr. Rhodes participates in the 401(k) Plan, which has an employer matching contribution, and in the NQDC Plan, which allows Mr. Rhodes to defer compensation and which restores the benefits limited in the 401(k) Plan by restrictions in the Code.

Qualified Pension Plan – In general, the Pension Plan provides Mr. Rhodes with a 50% joint-and-survivor annuity benefit at normal retirement that is equal to 1.50% of his average monthly compensation during the 60 consecutive months in which he received his highest compensation (High 60) multiplied by his years of benefit service, plus 0.25% of the amount by which his High 60 exceeds covered compensation multiplied by his years of benefit service. The benefit is actuarially adjusted if Mr. Rhodes chooses a different form of distribution than a 50% joint-and-survivor annuity. The Pension Plan takes into account compensation up to the applicable limit under Code § 401(a)(17). The limit applied to Mr. Rhodes' 2011 compensation is $360,000. Additional information with regard to the Pension Plan and other employee benefit plans is provided in Note 10 to the financial statements.

SERP Benefit – Prior to December 19, 2008, Mr. Rhodes participated in the U.S. AgBank District Pension Restoration Plan (Pension Restoration Plan) and in a SERP (Old SERP). The Pension Restoration Plan is a plan that restores Pension Plan benefits that are limited by the imposition of Code §§ 401, 410, and 415 and by the exclusion of deferrals to a nonqualified deferred compensation plan from the definition of "Compensation" in the Pension Plan. To determine the amount payable to Mr. Rhodes through the Old SERP, the benefits under the Pension Plan and the Pension Restoration Plan were first recalculated by using Mr. Rhodes' average monthly compensation during the 36 consecutive months in which he received his highest compensation rather than the High 60. Then, the calculated amount was offset by the actual benefits payable to Mr. Rhodes from the Pension Plan and the Pension Restoration Plan. As of December 19, 2008, Mr. Rhodes no longer participated in the Pension Restoration Plan and the Old SERP, and his vested benefits under those two plans were replaced by the "Guaranteed SERP" payments set forth in his Employment Agreement. The Guaranteed SERP payments became fully vested on December 31, 2008, and as such were expensed and accrued as of December 31, 2008. Mr. Rhodes' Contingent SERP benefits under the Employment Agreement became vested based on the length of his continued employment with U.S. AgBank and became fully vested because he remained employed by U.S. AgBank until December 31, 2011. The Contingent SERP benefits were designed to replace the future benefits lost by Mr. Rhodes in connection with the 2008 termination of his participation in the Pension Restoration Plan and in the Old SERP. The SERP benefits are shown below in the year each is to be paid and will be paid in the first quarter of the respective years shown. Under Code § 409A, the ability to change the payout schedule on these benefits is very limited.

	2009	2010	2011	2012	2013	2014	2015
Guaranteed SERP	$ 1,200,000	$ 1,200,000	$ 1,100,000	$ 500,000	$ 500,000	$ 500,000	$ 500,000
Contingent SERP	$ –	$ 900,000	$ 450,000	$ 450,000			

CEO CONSULTING AGREEMENT

Upon consummation of the merger with CoBank, Mr. Rhodes retired and was no longer an employee of AgBank, and he did not become an employee of CoBank. However, in 2011, AgBank and Mr. Rhodes entered into a Consulting Agreement, whereby Mr. Rhodes will provide consulting services to CoBank for the 6-month period following the merger. Mr. Rhodes will be paid a total of $500,000 for his consulting services, in six equal installments during the 6-month period. If he terminates the Consulting Agreement prior to the end of the 6-month period, his consulting fee will be pro-rated. If CoBank terminates the Consulting Agreement prior to the end of the 6-month period for any reason other than "Cause" (as defined in the agreement), Mr. Rhodes will be paid the balance of the $500,000 within thirty days of the agreement's termination.

COMPENSATION OF DIRECTORS

Each month, AgBank's directors are paid 1/12th of the amount established by the AgBank Board of Directors as the annual compensation to each director for services rendered. During 2011, each of the directors was compensated $4,000 monthly for customary responsibilities including service on Board committees. Also in 2011, the directors each received additional compensation for exceptional time and effort spent in connection with a merger with CoBank, ACB, another Farm Credit System Bank. The AgBank Board approved directors receiving additional compensation of $600 per day for attending special meetings not regularly scheduled but necessary as part of the merger discussions. In addition to cash compensation, directors are reimbursed for direct travel expenses incurred. Aggregated reimbursements to directors for travel, subsistence and other related expenses were $409,582, $280,977 and $246,537 for the years December 31, 2011, 2010 and 2009, respectively. De minimis amounts or gifts to directors, if any, are not included in compensation. A copy of the expense reimbursement policy is available to shareholders upon written request. Days served in the following table represent actual days at board meetings and activities. Board members also spend additional time in preparation for meetings and in travel to and from meetings. Directors are eligible to defer their total compensation received for serving on the Board through a nonqualified deferred compensation plan.

Additional information for each director is as follows:

Name	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities	Ordinary Compensation (1)	Special Compensation (1)	Total Compensation
John Eisenhut	26	28	$ 48,000	$ 4,500	$ 52,500
Kenneth Shaw	26	15	48,000	2,400	50,400
Wayne Allen	24	15	48,000	1,200	49,200
Wesley D. Brantley	27	12	48,000	3,300	51,300
Robert Bray	27	12	48,000	2,100	50,100
John J. Breen	27	12	48,000	3,300	51,300
Oghi DeGiusti	27	18	48,000	3,600	51,600
J. Less Guthrie	27	16	48,000	3,600	51,600
Alarik Myrin (2)	7	7	12,000	300	12,300
David S. Phippen	27	10	48,000	3,300	51,300
Ronald J. Rahjes	27	16	48,000	3,300	51,300
Sheldon Richins (3)	20	3	36,000	1,800	37,800
Clint E. Roush	27	24	48,000	3,300	51,300
Donnell Spencer	26	16	48,000	3,300	51,300
David Vanni	25	17	48,000	2,400	50,400
Robert J. Wietharn	27	8	48,000	2,100	50,100
Leland T. Willeke	26	12	48,000	3,300	51,300
			$ 768,000	$ 47,100	$ 815,100

(1) The 2011 statutory ordinary compensation limit for directors was $52,800; Farm Credit Administration regulations permit payment of additional compensation to a director up to $15,840 (30% of the statutory limit) where the director contributes extraordinary time and effort in the service of the bank and its stockholders.

(2) Became Board Member October 1, 2011

(3) Left the Board September 30, 2011

DISCLOSURE INFORMATION REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

U.S. AgBank District

(Dollars in thousands, except as noted)

DESCRIPTION OF BUSINESS

The description of the territory served, persons eligible to borrow, types of lending activities engaged in and financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the combined financial statements, "Organization and Operations" included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or disposition of material assets, material changes in the manner of conducting the business, seasonal characteristics and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from "Management's Discussion and Analysis" included in this annual report to shareholders.

DESCRIPTION OF PROPERTY

The activities and description of property required to be disclosed in this section are incorporated herein by reference from Note 5 to the combined financial statements "Premises and Equipment," included in this annual report to shareholders.

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

Information required to be disclosed in this section is incorporated herein by reference from Note 13 to the combined financial statements, "Commitments and Contingencies," included in this annual report to shareholders. There were no regulatory enforcement matters for the years presented.

DESCRIPTION OF CAPITAL STRUCTURE

Information required to be disclosed in this section is incorporated herein by reference from Note 8 to the combined financial statements, "Shareholders' Equity," included in this annual report to shareholders.

DESCRIPTION OF LIABILITIES

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 7 to the combined financial statements, "Bonds and Notes," included in this annual report to shareholders.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 13 to the combined financial statements in this annual report to shareholders.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2011 required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Combined Financial Data" included in this annual report to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

"Management's Discussion and Analysis," included in this annual report to shareholders is required to be disclosed in this section, and is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

In anticipation of the merger with CoBank, in 2011, the AgBank Board of Directors adopted changes to bylaws to facilitate governance changes necessary for the merger. In addition, the CoBank-AgBank merger proposal approved by stockholders accomplished similar changes. On the effective date of the merger, January 1, 2012, all former AgBank Directors joined the CoBank board. On January 1, 2012, the CoBank Board will transition to an ongoing board of directors consisting of 24 directors elected from six different geographic regions.

The following represents certain information regarding the directors of AgBank, which includes their experience for a minimum of 5 years:

John Eisenhut, 66, Chairman, Turlock, California, is the owner/operator of Eisenhut Farms, an almond orchard. He is also the owner/operator of Eisenhut Properties, a commercial and residential real estate company. Mr. Eisenhut is a member of Yosemite Farm Credit, ACA. He is a member and former officer of the Stanislaus County Farm Bureau. Mr. Eisenhut served as an ex-officio member of the U.S. AgBank, FCB, Compensation Committee and the U.S. AgBank, FCB, Audit Committee. He also served on the U.S. AgBank, FCB, Risk Management Committee. Mr. Eisenhut has a Bachelor's Degree and a Masters Degree in Economics from the University of California-Santa Barbara and an MBA from California State University-Stanislaus. He became a director in 2005, and his current term expires on December 31, 2015, subject to the CoBank, ACB board's transition plan.

Kenneth Shaw, 61, Vice Chairman, Mountainair, New Mexico, is a rancher and stockman with a cow/calf/yearling operation. He is a member of Farm Credit of New Mexico, ACA. Mr. Shaw is a director of the Central New Mexico Electric Cooperative, an electric distribution cooperative. He served on the U.S. AgBank, FCB, Compensation Committee and on the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Science Degree in Agricultural Business from Eastern New Mexico University. Mr. Shaw became a director in 1999, and his current term expires on December 31, 2013 subject to the CoBank, ACB board's transition plan.

Wayne Allen, 70, Nevada City, California, is the owner/operator of Allen Farms, a rice growing operation. He is also part owner and general partner of Bread Store, L.P., a family-owned commercial property management company. He is a member of Farm Credit West, ACA. Mr. Allen is a member and former officer of Sacramento County Farm Bureau. He served as chairman of the County Legislative Action Committee for four years. Mr. Allen consecutively served ten years on the California Farm Bureau Rice Committee and on the National Farm Bureau Rice committee. He served as chairman of both of those committees. Mr. Allen also served as the Farm Bureau representative on the California Rice Industry committee. Mr. Allen is a member of Cal West Seeds, a seed marketing cooperative, and served on the board of directors of that organization for 24 years. Mr. Allen serves on the board of directors of The Farm Credit Council. He served on the U.S. AgBank, FCB, Compensation Committee and on the U.S. AgBank, FCB, Risk Management Committee. He has an Associates of Arts Degree from Sacramento City College. Mr. Allen became a director in 2003, and his current term expires on December 31, 2015, subject to the CoBank, ACB board's transition plan.

Wesley D. Brantley, 71, Ada, Oklahoma, is a CPA and was an audit partner with Horne and Company, CPAs, in Ada, Oklahoma from 1967 to 1998. His areas of practice included banks, savings and loans, farm cooperatives, insurance companies, colleges, and state and local governments. In 1998, Mr. Brantley accepted a position as Chief Financial Administrator of the Chickasaw Nation, a federally recognized Indian tribe. In this capacity, he was responsible for the tribe's financial statements, budget and grant writing departments, internal audit department, governmental and grant finance department, purchasing and supply department and oversight of the housing and tribal business finance department. Mr. Brantley has retired from this position and now serves in a consulting capacity. Mr. Brantley served on the U.S. AgBank, FCB, Audit Committee and has been designated a financial expert. He also served on the U.S. AgBank, FCB, Risk Management Committee. Mr. Brantley has a Bachelor's of Science Degree in General Business from East Central University in Ada, Oklahoma. He was appointed to the Board of Directors in October 2005, and his current term expires on December 31, 2014, subject to the CoBank, ACB board's transition plan.

Robert W. Bray, 56, Redvale, Colorado, is the owner/operator of Bray Ranches, a farming and ranching operation and a big game hunting business. He is a member of Farm Credit Services of the Mountain Plains, ACA. Mr. Bray is a member of the Colorado Cattlemen's Association, Colorado Woolgrowers' Association, San Miguel Power Association, Fruita Co-op, and the Colorado Farm Bureau. Mr. Bray served as Vice Chairman of the U.S. AgBank, FCB, Compensation Committee and he served on the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Science Degree in Agricultural Economics from Colorado State University. Mr. Bray became a director in 2008, and his current term expires on December 31, 2014, subject to the CoBank, ACB board's transition plan.

John J. "Jack" Breen, 69, Middletown, New Jersey, was the managing Director-Administration of the Federal Farm Credit Banks Funding Corporation prior to his retirement in 2004. Mr. Breen joined the Funding Corporation management team in 1991 with responsibility for Farm Credit System financing programs and Selling Group Management. In 1996, he assumed responsibility for a newly created Administration Group encompassing all Funding Corporation operating activities, including Information Systems, Securities Operations, Corporate Accounting, Business Continuity Planning, and Selling Group Surveillance and Credit Activities. Prior to joining the Funding Corporation, Mr. Breen spent 15 years in various executive positions with the Irving Trust Company, a New York money center banking company, and served as a member of the bank's Risk Management and Foreign Exchange Management Committees. He served on the U.S. AgBank, FCB, Audit Committee and has been designated a financial expert. Mr. Breen also served on the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Science Degree in Economics from Fordham University and an MBA from the University of Buffalo. He was appointed to the Board of Directors in July 2004, and his current term expires on December 31, 2013 subject to the CoBank, ACB board's transition plan.

Oghi A. "Tony" DeGiusti, 59, Tuttle, Oklahoma, is the owner/operator of DeGiusti Farms, an alfalfa, grass hay, wheat, and cow/calf stocker operation. Mr. DeGiusti is a member of Chisholm Trail Farm Credit, ACA. Mr. DeGiusti serves on the Farm Credit Council Board of Directors. Mr. DeGiusti is a director of the Grady County Alfalfa Hay Growers Association and a committee member of the Grady County Farm Services Agency, an organization which administers USDA programs. He is a member of the Oklahoma Farm Bureau, Oklahoma State Farm Service Agency, and the American Farmers and Ranchers Insurance Company. Mr. DeGiusti served as the Chairman of the U.S. AgBank, FCB, Compensation Committee. He also served on the U.S. AgBank, FCB, Risk Management Committee. He became a director in 2005, and his current term expires on December 31, 2014, subject to the CoBank, ACB board's transition plan.

J. "Less" Guthrie, 67, Porterville, California, owns and operates a cow/calf and stocker cattle ranch and a diversified farming operation. Mr. Guthrie is a member of Farm Credit West, ACA. He is a director of Guthrie Investment Co., Inc. (farming and investments) and F&T Financial Services (consumer loans and debt collections). He also serves as chairman of the board of directors of the Federal Farm Credit Banks Funding Corporation and vice chairman of the Farm Credit System Coordinating Committee. He is on the board of directors of the California Cattlemen's Association and a member of Sunkist Cooperative. Mr. Guthrie served on the U.S. AgBank, FCB, Compensation Committee and on the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Science Degree in Agricultural Economics from the University of California-Davis. Mr. Guthrie became a director in 1997, and his current term expires on December 31, 2013 subject to the CoBank, ACB board's transition plan.

Alarik Myrin, 65, Altamont, Utah, owns and operates a third generation ranching and farming operation. He is president of Myrin Ranch, Inc., and manager of Myrin Livestock Co. LLC, a family cattle ranch. He is a member of Canyon Meadows Ranch, a division of Myrin Ranch, Inc. (beef sales to consumer). He is also a general partner in Myrin Investment Co. Ltd (real estate and rental income business). He is a member of Western AgCredit, ACA. Mr. Myrin served 6 years in the Utah House of Representatives and 12 years in the Utah Senate. He has also served in many industry positions mainly with the Cattlemen's Association. He served on the U.S. AgBank, FCB, Audit Committee and on the U.S. AgBank, FCB, Risk Management Committee. Mr. Myrin has a Bachelor of Science Degree in Animal Science and a Masters Degree in Economics from Utah State University. He became a director effective October 1, 2011, and his current term expires on December 31, 2014, subject to the CoBank, ACB board's transition plan.

David S. Phippen, 61, Ripon, California, is an almond grower and a co-owner of an almond processing company. He is a member of American AgCredit, ACA. Mr. Phippen is a director of the Almond Board of California. He also serves as a director of the San Joaquin County Farm Bureau. Mr. Phippen served as Vice Chairman of the U.S. AgBank, FCB, Risk Management Committee. He also served on the U.S. AgBank, FCB, Audit Committee. Mr. Phippen has an Associate Degree from Modesto Junior College, Modesto, California. He became a director in 2006, and his current term expires on December 31, 2015, subject to the CoBank, ACB board's transition plan.

Ronald J. Rahjes, 60, Kensington, Kansas, is a partner in Wesley J. Rahjes & Sons, Inc., a diversified family farming corporation which produces wheat, corn, soybeans, and grain sorghum. He is also the owner of R&C Tax Service, an accounting tax firm. Mr. Rahjes is a member of High Plains Farm Credit, ACA. He also serves on the board of directors of Rural Telephone/Nex-Tech, a telecommunications company. Mr. Rahjes served as Vice Chairman of the U.S. AgBank, FCB, Audit Committee. He also served on the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Science degree in Business Administration from the University of Kansas. Mr. Rahjes became a director in 2009, and his current term expires on December 31, 2015, subject to the CoBank, ACB board's transition plan.

Clint E. Roush, 65, Arapaho, Oklahoma, is the president of Clint Roush Farms, Inc., a family farming corporation, producing wheat, alfalfa, and feeder cattle. He is a member of Farm Credit of Western Oklahoma, ACA. Dr. Roush serves as president of the board of directors of the Farmers' Cooperative Association of Clinton, Oklahoma, a grain and fertilizer cooperative and is a director for the Custer County Cattlemen's Association. He also serves on the advisory board for the Endowed Cooperative Chair in the Agricultural Economics Department of Oklahoma State University. Dr. Roush served as Chairman of the U.S. AgBank, FCB, Risk Management Committee. He also served on the U.S. AgBank, FCB, Compensation Committee. His degrees in Agricultural Economics from Oklahoma State University include a Bachelor of Science Degree, a Master of Science Degree, and a Doctorate in Philosophy in Agricultural Economics. Dr. Roush became a director in 2009, and his current term expires on December 31, 2015, subject to the CoBank, ACB board's transition plan.

Donnell Spencer, 77, Richfield, Utah, is a farmer and rancher raising alfalfa and livestock. He is a board member and president of Diversified Spencer, Inc., a family farming corporation. Mr. Spencer is a member of Western AgCredit, ACA. He served on the U.S. AgBank, FCB, Compensation Committee and on the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Science Degree in Engineering from Utah State University. Mr. Spencer became a director in 2000, and his current term expires on December 31, 2014, subject to the CoBank, ACB board's transition plan.

David Vanni, 70, Gilroy, California, is the owner and operator of Rancho de Solis Winery, Inc., and Fratelli Ranch, LLC, in Santa Clara County, California. His operation consists of 40 acres of wine grapes, and covers all aspects of a winery operation, including production and marketing. He is also an officer of Vanni Business Partners, LLC (investment development). Mr. Vanni is a member of American AgCredit, ACA. He is a member of the Santa Clara County Farm Bureau and serves on the Ag Advisory Committee to the Santa Clara Valley Water District Board. Mr. Vanni served as Chairman of the U.S. AgBank, FCB, Audit Committee. He also served on the U.S. AgBank, FCB, Risk Management Committee. He attended San Francisco City College. He became a director in 2007, and his current term expires on December 31, 2013 subject to the CoBank, ACB board's transition plan.

Robert J. Wietharn, 50, Clay Center, Kansas, is a farmer, pork producer and manufacturer of irrigation equipment. He manages and is a director of Wietharn Farms, Inc. (a family farming corporation raising corn and soybeans), Valley Pork Ranch, Inc. (a family farm corporation marketing farrow-to-finish hogs), Riverscreen, Inc. (manufacturing and selling irrigation equipment), and Valley Farmers, Inc. (a grain facility and irrigation equipment dealership). Mr. Wietharn is a member of Frontier Farm Credit, ACA. He served on the U.S. AgBank, FCB, Audit Committee and on the U.S. AgBank, FCB, Risk Management Committee. He became a director in 2002, and his current term expires on December 31, 2013 subject to the CoBank, ACB board's transition plan.

Leland T. Willeke, 61, Otis, Colorado, operates a 4,500 acre dryland farm that produces wheat and millet. He is president of Wheatland Industries, Inc., a family farming corporation. Mr. Willeke is a member of Premier Farm Credit, ACA, and served as an Association director for 17 years. He also served as Chairman of the U.S. AgBank Nominating Committee in 2008-2009. Mr. Willeke served on the U.S. AgBank, FCB, Compensation Committee and on the U.S. AgBank, FCB, Risk Management Committee. He is a graduate of the University of Colorado with a Bachelor of Science degree in civil engineering and computer aided design. He continues to serve on the Scholarship Committee at the University of Colorado. Prior to becoming a farmer, Mr. Willeke was involved with a design and construction firm as a partner and owner. He became a director in 2010, and his current term expires on December 31, 2013 subject to the CoBank, ACB board's transition plan.

Sheldon D. Richins, 75, Henefer, Utah, is a rancher and stockman with a cow/calf operation and is in partnership with his two sons. Mr. Richins is a member of Western AgCredit, ACA. Mr. Richins is a member of the National Cattlemen's Association. He also served as chairman of the Summit County Commission and as president of the Utah Association of Counties. Mr. Richins served on the U.S. AgBank, FCB, Compensation Committee and on the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Education Degree from Weber State University and a Graduate Degree in Administration from Utah State University. Mr. Richins became a director in 2005, and his term expired on September 30, 2011.

Information related to AgBank's senior officers as of December 31, 2011 was as follows:

Darryl W. Rhodes, 61, President and Chief Executive Officer. Mr. Rhodes became President and CEO of U.S. AgBank, FCB in 2006. He previously served as Executive Vice President-Finance (and Chief Financial Officer), a position he held since October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. Mr. Rhodes was named Executive Vice President-Finance of the Farm Credit Bank of Wichita in May 1991. He began his career in 1972 as a loan officer trainee with the Federal Land Bank of Wichita and has over 39 years of experience with Associations and Banks in the Farm Credit System. With the Bank merger, Mr. Rhodes retired effective December 31, 2011.

Mr. Rhodes served as Chairman of the U.S. AgBank, FCB, Executive Committee. He was a member of the Farm Credit System Presidents Planning Committee (PPC), and Chairman of the Farm Credit System Finance Committee and a member of the PPC Executive Committee. He previously chaired the Farm Credit System Risk Management Committee. He served on the Executive Council of the Board of Directors of the National Council of Farmer Cooperatives. He was a member of the board of directors of the Federal Agricultural Mortgage Corporation (Farmer Mac) from 1995 to 1999. In addition, he served on the board of directors of the Farm Credit System Captive Insurance Company from 1997 to 2003.

Mr. Rhodes was raised on a cash grain and livestock operation near Deer Trail, Colorado. He received an Associates Degree from Northeastern Junior College in 1970, and a Bachelor's Degree in Agricultural Business from Colorado State University in 1972.

David D. Janish, 53, Senior Vice President - Finance. Mr. Janish was named Senior Vice President-Finance of U.S. AgBank, FCB, in March 2007. He served as President and CEO of AgVantis, Inc., a technology and business services organization serving Farm Credit Associations and Banks, from January 2002 until March 2007. Mr. Janish was named Vice President-Information Services of the Farm Credit Bank of Wichita in June 1992. He began his career in 1980 with the Federal Intermediate Credit Bank of Omaha and has over 30 years of experience in corporate management, business and consulting services, and information technology with various other Farm Credit System entities, including the Farm Credit Bank of Omaha, Farm Credit Corporation of America, Farm Credit Council Services, the Farm Credit Bank of Wichita, and AgVantis, Inc. With the Bank merger, Mr. Janish became Chief Operating Officer – Wichita for CoBank, ACB on January 1, 2012.

Mr. Janish served as Chairman of the U.S. AgBank, FCB, Asset/Liability Management Committee and the U.S. AgBank, FCB, Disclosure Controls and Procedures Committee, the U.S. AgBank, FCB, Investment Committee, and the U.S. AgBank, FCB, Market Strategies Committee. He was a voting member of the U.S. AgBank, FCB, Executive Committee. He also serves on the board of directors of AgVantis, Inc.

Mr. Janish was raised on a diversified livestock, row crop, and grain operation near Kimball, South Dakota. He received Bachelor Degrees in Mathematics and Computer Science from the University of South Dakota, and an MBA in Finance from Regis University in Denver, Colorado.

James L. Grauerholz, 62, Senior Vice President-Administration. Mr. Grauerholz was named Senior Vice President-Administration of U.S. AgBank, FCB, on October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. He served as Senior Vice President-Administration of the two Banks under a Joint Management Agreement from January 1, 2002, until September 30, 2003. Mr. Grauerholz was named Senior Vice President-Administration of the Farm Credit Bank of Wichita in 1994, and had previously served as Senior Vice President-Lending since 1991. He began his career in 1973 as a loan officer trainee with the Federal Intermediate Credit Bank of Wichita and has over 38 years of experience with Associations and Banks in the Farm Credit System. With the Bank merger, Mr. Grauerholz retired effective December 31, 2011.

Mr. Grauerholz was a voting member of the U.S. AgBank, FCB, Executive Committee, the U.S. AgBank, FCB, Asset/Liability Management Committee, and the U.S. AgBank, FCB, Disclosure Controls and Procedures Committee. He also serves on the Farm Credit Foundations Plan Sponsor Committee.

Mr. Grauerholz was raised on a cash grain and livestock operation near Athol, Kansas. He received a Bachelor's Degree in Agricultural Economics and a Masters Degree in Adult and Occupational Education from Kansas State University.

Dennis E. Grizzell, 63, Senior Vice President-Credit. Mr. Grizzell was named Senior Vice President-Credit of U.S. AgBank, FCB, on October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. He served as Senior Vice President-Credit of the two Banks under a Joint Management Agreement from January 1, 2002, until September 30, 2003. Mr. Grizzell was named Senior Vice President-Credit of the Farm Credit Bank of Wichita in 1994. He began his career as a loan officer trainee with the Federal Intermediate Credit Bank of Wichita in 1972 and has over 38 years of experience with Associations and Banks in the Farm Credit System. With the Bank merger, Mr. Grizzell retired effective December 31, 2011.

Mr. Grizzell was a voting member of the U.S. AgBank, FCB, Executive Committee, U.S. AgBank, FCB, Asset/Liability Management Committee, and the U.S. AgBank, FCB, Disclosure Controls and Procedures Committee, and the U.S. AgBank, FCB, Investment Committee. He served as Chairman of the U.S. AgBank, FCB, Loan Committee. He is also a member of the Farm Credit System Risk Management Workgroup.

Mr. Grizzell was raised on a cash grain and livestock operation near Macksville, Kansas. He received a Bachelor's Degree in Business and Agriculture from Fort Hays State University.

Thomas R. Kruse, 62, Senior Vice President-Internal Audit and Quality Assurance. Mr. Kruse was named Senior Vice President-Internal Audit and Quality Assurance of U.S. AgBank, FCB, on March 1, 2007. He previously served as Vice President-Risk Management, a position he held since October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. He served as Vice President-Risk Management of the two Banks under a Joint Management Agreement from January 1, 2002, until September 30, 2003. Mr. Kruse was named Vice President-Risk Management of the Farm Credit Bank of Wichita in January 1997. He has over 38 years of experience in management, credit, operations, review, and audit functions with various Farm Credit System entities. With the Bank merger, Mr. Kruse will continue his employment with CoBank as Special Advisor to the Chief Risk Officer for CoBank, ACB effective January 1, 2012 until his retirement June 30, 2012.

Mr. Kruse was a non-voting member of the U.S. AgBank, FCB, Executive Committee and the U.S. AgBank, FCB, Asset/Liability Management Committee. He was also a member of U.S. AgBank, FCB, Disclosure Controls and Procedures Committee, and the U.S. AgBank, FCB, Investment Committee. He is also a member of the Farm Credit System Risk Management Workgroup and the Farm Credit System Review, Audit, and Appraisal Workgroup.

Mr. Kruse was raised on a diversified grain and livestock farm near Little River, Kansas. He holds a Bachelor's Degree in Agricultural Economics from Kansas State University and is a graduate of the Pacific Coast Banking School.

Gregory E. Somerhalder, 51, Senior Vice President-Risk Management. Mr. Somerhalder was named Senior Vice President-Risk Management of U.S. AgBank, FCB, in June 2010, after serving as Vice President-Risk Management since December 2009. He joined U.S. AgBank, FCB, in September 2001 as Vice President-Correspondent Lending. Mr. Somerhalder began his banking career in 1982 as a loan representative trainee for the Wichita Bank for Cooperatives which was merged into CoBank, ACB, in 1989. He served in various capacities for CoBank, including both the Rural Utility and Agribusiness sectors until joining U.S. AgBank, FCB. He has over 29 years of experience with the Farm Credit System. With the Bank merger, Mr. Somerhalder became Deputy Chief Risk Officer for CoBank, ACB effective January 1, 2012.

Mr. Somerhalder served as a voting member of the U.S. AgBank, FCB, Executive Committee, the U.S. AgBank, FCB, Asset/Liability Management Committee, the U.S. AgBank, FCB, Loan Committee, the U.S. AgBank, FCB, Market Strategies Committee, the U.S. AgBank, FCB, Investment Committee, and the U.S. AgBank, FCB, Disclosure Controls and Procedures Committee. He continues as Chairman of the Farm Credit System Risk Management Workgroup which provides support to the Risk Management Committee of the Farm Credit System's Presidents Planning Committee. He is also a member of the Farm Credit System Review, Audit, and Appraisal Workgroup and served as a Task Force Chairman in the Farm Credit System Horizons Project.

Mr. Somerhalder was raised in Burlington, Oklahoma, and was actively involved in farming and the local agricultural cooperative. He received a Bachelor of Science Degree in Agricultural Economics from Oklahoma State University in 1982.

Gregory J. Buehne, 59, Senior Vice President-Legal and Legislative Services. Mr. Buehne was named Senior Vice President-Legal and Legislative Services of U.S. AgBank, FCB, on March 5, 2007. He began his Farm Credit System career in 1985 as Associate General Counsel at the Farm Credit Bank of Spokane, and subsequently served as the Senior Vice President and General Counsel of the Farm Credit Bank of Spokane, and also for AgAmerica, FCB, and the Western Farm Credit Bank. He left the Farm Credit System prior to the formation of U.S. AgBank, FCB, in 2003 and provided consulting services to System entities on Governance and Strategic Planning until 2007. He has over 26 years of experience in the Farm Credit System. Effective June 16, 2011, Mr. Buehne resigned his position with AgBank and became the Senior Vice President and General Counsel with CoBank.

Mr. Buehne was a voting member of the U.S. AgBank, FCB, Executive Committee, the U.S. AgBank, FCB, Asset/Liability Management Committee, and the U.S. AgBank, FCB, Disclosure Controls and Procedures Committee. He also served as the Executive Director of the AgBank District Farm Credit Council and is a member of the Farm Credit System Association Captive Insurance Company Board of Governors.

Mr. Buehne is a native Kansan and received a Bachelor of Arts Degree and Juris Doctorate from the University of Kansas in Lawrence, Kansas.

John W. Lann, 65, Acting General Counsel. Mr. Lann was named Acting General Counsel of U.S. AgBank, FCB on June 16, 2011. He previously served as Assistant General Counsel, a position he held since October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. He served as Assistant General Counsel of the two Banks under a Joint Management Agreement from January 1, 2002, until September 30, 2003. He began his career as a staff attorney with the Federal Land Bank of Wichita in 1974 and has over 37 years of experience with the Farm Credit System. Mr. Lann was a non-voting member of the U.S. AgBank, FCB Executive Committee and was also a member of the U.S. AgBank, FCB Disclosure Controls and Procedures Committee.

Mr. Lann received a Bachelor of Arts degree from Bethany College in Lindsborg, Kansas and a Juris Doctorate from Washburn University in Topeka, Kansas.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

AgBank's policies on loans to and transactions with its officers and directors, required to be disclosed in this section are incorporated herein by reference from Note 11 to the combined financial statements, "Related Party Transactions," included in this annual report to shareholders.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

There were no matters which came to the attention of management or the Boards of Directors regarding involvement of current directors or senior officers in specified legal proceedings.

BORROWER PRIVACY STATEMENT

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. AgBank or the Associations do not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting AgBank.

RELATIONSHIP WITH INDEPENDENT AUDITORS

There were no changes in independent auditors since the prior annual report to shareholders, and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS PROGRAM

As part of the Farm Credit System, we are committed to providing sound and dependable credit to young, beginning and small (YBS) farmers and ranchers. Annual marketing goals are established by each Association related to financing YBS farmers and ranchers. Association Boards of Directors regularly review the number, volume and credit quality of the YBS customers that are financed. The FCA regulatory definitions for YBS farmers and ranchers are shown below.

- Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
- Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

It is important to note that due to the regulatory definitions a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

The following table summarizes information regarding loans outstanding to young and beginning farmers and ranchers at year-end:

	December 31, 2011	
(dollars in millions)	Number of loans	Volume
Total loans and commitments	74,412	$ 32,061.4
Loans to young farmers and ranchers	11,551	3,316.1
Percent of loans to young farmers and ranchers	15.5%	10.3%
Loans to beginning farmers and ranchers	16,047	4,586.1
Percent of loans to beginning farmers and ranchers	21.6%	14.3%

The following table summarizes information regarding new loans made to young and beginning farmers and ranchers during 2011:

	For the Year Ended December 31, 2011	
(dollars in millions)	Number of loans	Volume
Total new loans and commitments	17,348	$ 9,401.2
New loans to young farmers and ranchers	2,685	942.3
Percent of new loans to young farmers and ranchers	15.5%	10.0%
New Loans to beginning farmers and ranchers	3,071	979.6
Percent of new loans to beginning farmers and ranchers	17.7%	10.4%

The following table summarizes information regarding loans outstanding to small farmers and ranchers at year-end:

	December 31, 2011				
	Annual Gross Sales				
(dollars in millions)	$50 thousand or less	$50 to $100 thousand	$100 to $250 thousand	Over $250 thousand	Total
Total number of loans and commitments	23,331	13,350	16,530	21,201	74,412
Number of loans to small farmers and ranchers	13,567	7,902	7,747	3,414	32,630
Percent of loans to small farmers and ranchers	58.2%	59.2%	46.9%	16.1%	43.9%
Total loan and commitment volume	$ 515.3	$ 1,008.4	$ 2,734.0	$ 27,803.7	$ 32,061.4
Total loan volume to small farmers and ranchers	$ 332.6	$ 591.8	$ 1,230.8	$ 1,958.6	$ 4,113.8
Percent of loan volume to small farmers and ranchers	64.5%	58.7%	45.0%	7.0%	12.8%

The following table summarizes information regarding new loans made to small farmers and ranchers during 2011:

	December 31, 2011				
	Annual Gross Sales				
(dollars in millions)	$50 thousand or less	$50 to $100 thousand	$100 to $250 thousand	Over $250 thousand	Total
Total number of new loans and commitments	4,528	2,985	4,077	5,758	17,348
Number of new loans to small farmers and ranchers	2,475	1,505	1,529	613	6,122
Percent of new loans to small farmers and ranchers	54.7%	50.4%	37.5%	10.6%	35.3%
Total new loan and commitment volume	$ 110.7	$ 233.0	$ 701.6	$ 8,355.9	$ 9,401.2
Total new loan volume to small farmers and ranchers	$ 68.8	$ 115.0	$ 251.2	$ 323.7	$ 758.7
Percent of new loan volume to small farmers and ranchers	62.2%	49.3%	35.8%	3.9%	8.1%

Each Association management establishes annual marketing goals to increase market share of loans to YBS farmers and ranchers. A summary of goals in the District are as follows.

- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other system institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and,
- Implement effective outreach programs to attract YBS farmers and ranchers.

Reports are provided regularly to Association Boards of Directors detailing the number, volume and credit quality of their YBS customers. They have developed quantitative targets to monitor progress. Such targets may include:

- Loan volume and loan number goals for YBS farmers and ranchers in the territory;
- Percentage goals representative of the demographics of YBS farmers and ranchers in the territory;
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in the territory; and
- Goals for capital committed to loans made to YBS farmers and ranchers in the territory.

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, the Associations typically utilize customized loan underwriting standards, loan guarantee programs, fee waiver programs, or other credit enhancement programs. Additionally, Association management and staff are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers. Specific qualitative and quantitative information for each District Association can be found in its annual report.

COMBINED FINANCIAL STATEMENTS

The combined financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 15, 2012, and the Report of Management, appearing as part of this annual report to shareholders, is incorporated herein by reference.

Annual reports are released within 75 days and quarterly reports within 40 days of period end. The annual report and recent quarterly reports are available on the CoBank website, www.cobank.com, or copies are available free of charge, upon request to:

CoBank, ACB
245 N. Waco, P.O. Box 2940
Wichita, KS 67201-2940
(800) 322-9880

DISTRICT ASSOCIATIONS *(AS OF JANUARY 1, 2012)*

California

Farm Credit Services of Colusa-Glenn, ACA
www.californiafarmcredit.com
California
Colusa ◆ Willows

Farm Credit West, ACA
www.farmcreditwest.com
California
Roseville ◆ Bakersfield ◆ Carpinteria
Dinuba ◆ Hanford ◆ Paso Robles
Santa Maria ◆ Tulare ◆ Ventura
Visalia ◆ Woodland ◆ Yuba City

Federal Land Bank Association of Kingsburg, FLCA
www.kflba.com
California
Kingsburg ◆ Hanford

Fresno-Madera Farm Credit, ACA
www.fmfarmcredit.com
California
Fresno ◆ Madera

Northern California Farm Credit, ACA
www.norcalfc.com
California
Chico ◆ Red Bluff ◆ Willows

Yosemite Farm Credit, ACA
www.yosemitefarmcredit.com
California
Turlock ◆ Los Banos ◆ Merced
Modesto ◆ Oakdale ◆ Patterson

California and Arizona

Farm Credit Services Southwest, ACA
www.fcssw.com
Arizona
Tempe ◆ Safford ◆ Yuma
California
El Centro

California, Nevada, Kansas, Colorado and Oklahoma

American AgCredit, ACA
www.agloan.com
California
Santa Rosa ◆ Alturas ◆ Eureka ◆ Indio
Merced ◆ Oakdale ◆ Ontario ◆ Petaluma
Salinas ◆ St. Helena ◆ Stockton ◆ Temecula
Tulelake ◆ Turlock ◆ Ukiah ◆ Yreka
Nevada
Elko ◆ Fallon ◆ Reno
Kansas
Concordia ◆ El Dorado ◆ Hutchinson
Kingman ◆ Larned ◆ Pratt ◆ Salina ◆ Wichita
Colorado
Greeley ◆ Durango
Grand Junction ◆ Montrose
Oklahoma
Ponca City

Colorado

Farm Credit of Southern Colorado, ACA
www.aglending.com
Colorado
Colorado Springs ◆ Burlington ◆ LaJunta
Lamar ◆ Limon ◆ Monte Vista

Premier Farm Credit, ACA
www.premieraca.com
Colorado
Sterling ◆ Fort Morgan ◆ Yuma

Hawaii

Farm Credit Services of Hawaii, ACA
www.hawaiifarmcredit.com
Hawaii
Honolulu ◆ Hilo

Idaho

Idaho Agricultural Credit Association
www.idahoagcredit.com
Idaho
Blackfoot ◆ American Falls
Rexburg ◆ Twin Falls

District Associations

Kansas

Farm Credit of Ness City, FLCA
www.farmcreditnesscity.com
Kansas
Ness City

Farm Credit of Southwest Kansas, ACA
www.farmcreditconnect.com
Kansas
Garden City ◆ Dodge City
Liberal ◆ Scott City

Farm Credit of Western Kansas, ACA
www.farmcreditkansas.com
Kansas
Colby

Frontier Farm Credit, ACA
www.frontierfarmcredit.com
Kansas
Manhattan ◆ Baldwin City ◆ Emporia
Hiawatha ◆ Marysville ◆ Parsons

High Plains Farm Credit, ACA
www.highplainsfarmcredit.com
Kansas
Larned ◆ Dodge City ◆ Hays
Phillipsburg ◆ Pratt

Oklahoma

AgPreference, ACA
www.agpreference.com
Oklahoma
Altus

Chisholm Trail Farm Credit, ACA
www.chisholmtrailfc.com
Oklahoma
Enid ◆ Chickasha
Duncan ◆ Watonga

Farm Credit of Central Oklahoma, ACA
www.farmcreditloans.com
Oklahoma
Anadarko

Farm Credit of East Central Oklahoma, ACA
www.farmcreditecok.com
Oklahoma
Broken Arrow ◆ Ardmore ◆ Durant ◆ Idabel
Kingfisher ◆ McAlester ◆ Muskogee ◆ Pauls Valley
Poteau ◆ Stillwater ◆ Vinita

Farm Credit of Enid, ACA
www.fcenid.com
Oklahoma
Enid

Farm Credit of Western Oklahoma, ACA
www.fcwestok.com
Oklahoma
Woodward ◆ Alva ◆ Clinton
Elk City ◆ Guymon

New Mexico

Farm Credit of New Mexico, ACA
www.farmcreditnm.com
New Mexico
Albuquerque ◆ Clovis ◆ Las Cruces
Roswell ◆ Tucumcari

Utah and Wyoming

Western AgCredit, ACA
www.westernagcredit.com
Utah
South Jordan ◆ Cedar City ◆ Delta
Logan ◆ Richfield ◆ Roosevelt
Spanish Fork ◆ Tremonton
Wyoming
Evanston

U.S. AgBank District

Staff Members

Back Row, Left to Right • Jerry A. Rose, Vice President – Financial Management • Charles D. Pfeifer, Vice President – Treasurer • Thomas R. Kruse, Senior Vice President – Internal Audit & Quality Assurance • Gregory E. Somerhalder, Senior Vice President – Risk Management • Darryl W. Rhodes, President & Chief Executive Officer • Gregg A. Howell, Vice President – Lending • James L. Grauerholz, Senior Vice President – Administration

Front Row, Left to Right • John W. Lann, Acting General Counsel • Randall S. Patane, Vice President – Lending • Jean L. Koenck, Vice President – Controller • Travis Ball, Vice President / Manager – Correspondent Lending • Dennis E. Grizzell, Senior Vice President – Credit • Randy Sebastian, Vice President – Administration • Jeana K. Hultquist, Vice President – Legislative Affairs • David D. Janish, Senior Vice President – Finance

Part of the Farm Credit System

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