2012
Annual Report

Farm Credit Midsouth, ACA

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Farm Credit Midsouth, ACA

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AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in Farm Credit Midsouth, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports contact us at 3000 Prosperity Drive, Jonesboro, Arkansas 72404, (870) 932-2288 or through our website at www.farmcreditmidsouth.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at agribankmn@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

To request free copies of our Annual or Quarterly Reports contact us as stated above. The Annual Report is available on our website approximately 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the calendar year. The Quarterly Reports are available on our website approximately 40 days after the end of each calendar quarter.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Farm Credit Customer:

Farm Credit Midsouth recorded a record year for 2012. Despite the extreme heat and drought conditions experienced through most of the territory, our stockholders were able to sustain record yields through irrigation. Many stockholders experienced a very profitable year with the combination of high prices and yields.

While the increase in stockholder income did reduce the growth rate of the Association, other factors such as net earnings, capital and credit quality increased the strength of the Association. The Board of Directors and management continue to focus on sound credit decisions and solid earnings in order to preserve and improve the long term financial strength and viability of your cooperative.

Perhaps one of the primary benefits of being a member of a strong cooperative is sharing in the profits. Once again the Association will return a cash patronage payment over $4 million to our stockholder members resulting in over $32 million returned since 2005.

In December of 2011, prior to the anticipated March retirement of CEO Gary Kinder, I was named as your new CEO. I have worked for Farm Credit Midsouth my entire career of 29 years. I began as a loan officer in Helena in 1984. While the 80's were certainly not the best of times to begin a career, they provided a valuable education to me and others of just how bad things could be. I have been with this Association from a loan volume of less than $215 million to our 2012 peak of almost $900 million and a capital position of less than $26 million to over $157 million today. Throughout my career with Farm Credit Midsouth we have grown in size, experience, market share, and capital.

While other management changes have taken place within the Association in 2012, these changes were anticipated and have been a successful implementation of the Association's ongoing succession plan. Farm Credit Midsouth continues to have high quality and experienced management and staff and continues to attract high quality, long term employees.

The strength of our Association has and will continue to be our people. Our customer/members that farm the great land in our territory are some of the most talented farmers in the country. Our Association employees know our market, members, and industry better than any other lender. Customer surveys show time and time again that it is the people of Farm Credit Midsouth that make the difference!

2012 was a successful year and we are well positioned for 2013 and years to come. Our focus is to continue the successful track we have taken for the past 22 years by focusing on our core values:

- Place the customer first
- Provide visionary leadership
- Achieve operational excellence
- Instill a high level of loyalty
- Acknowledge and reward quality employee performance

Sincerely,

James McJunkins
President and Chief Executive Officer
Farm Credit Midsouth, ACA

March 12, 2013

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Midsouth, ACA

(Dollars in thousands)

	2012	2011	2010	2009	2008
Statement of Condition Data					
Loans	**$707,301**	$719,395	$681,410	$605,130	$559,177
Allowance for loan losses	**930**	4,449	4,882	3,567	1,053
Net loans	**706,371**	714,946	676,528	601,563	558,124
Investment in AgriBank, FCB	**19,570**	20,127	18,555	18,267	13,270
Other property owned	**--**	12	--	1	10
Other assets	**20,512**	24,737	24,305	21,674	21,546
Total assets	**$746,453**	$759,822	$719,388	$641,505	$592,950
Obligations with maturities of one year or less	**$589,048**	$619,024	$591,130	$524,534	$482,699
Total liabilities	**589,048**	619,024	591,130	524,534	482,699
Protected members' equity	**5**	5	5	5	6
Capital stock and participation certificates	**2,077**	2,070	1,995	1,937	1,834
Unallocated surplus	**155,323**	138,723	126,258	115,029	108,411
Total members' equity	**157,405**	140,798	128,258	116,971	110,251
Total liabilities and members' equity	**$746,453**	$759,822	$719,388	$641,505	$592,950
Statement of Income Data					
Net interest income	**$23,659**	$23,589	$20,372	$19,166	$16,428
(Reversal of) provision for loan losses	**(3,489)**	280	1,319	2,501	(27)
Patronage income	**2,905**	2,733	3,265	2,246	1,405
Other expense, net	**7,680**	8,248	7,098	7,987	7,066
Provision for (benefit from) income taxes	**1,573**	1,129	(129)	205	38
Net income	**$20,800**	$16,665	$15,349	$10,719	$10,756
Key Financial Ratios					
Return on average assets	**2.7%**	2.1%	2.3%	1.7%	1.8%
Return on average members' equity	**14.0%**	12.4%	12.5%	9.4%	10.0%
Net interest income as a percentage of average earning assets	**3.2%**	3.2%	3.1%	3.2%	2.8%
Members' equity as a percentage of total assets	**21.1%**	18.5%	17.8%	18.2%	18.6%
Net charge-offs as a percentage of average loans	--	0.1%	--	--	--
Allowance for loan losses as a percentage of loans	**0.1%**	0.6%	0.7%	0.6%	0.2%
Permanent capital ratio	**16.2%**	14.2%	14.1%	13.8%	14.7%
Total surplus ratio	**15.9%**	14.0%	13.9%	13.5%	14.4%
Core surplus ratio	**15.9%**	14.0%	13.9%	13.5%	14.4%
Other					
Patronage distribution payable to members	**$4,200**	$4,200	$4,100	$4,101	$4,000

The patronage distribution to members accrued for the year ended December 31, 2012 is distributed in cash during the first quarter of 2013. The patronage distributions accrued for the years ended December 31, 2011, 2010, 2009, and 2008 were distributed in cash during the first quarter of each subsequent year. No income was distributed to members in the form of dividends, stock, or allocated surplus during these periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farm Credit Midsouth, ACA

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Midsouth, ACA and its subsidiaries and provides additional specific information. The accompanying consolidated financial statements and notes to the consolidated financial statements also contain important information about our financial position and results of operations.

The Farm Credit System

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2012, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 82 customer owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and operated by the rural customers the System serves – the American farmer and rancher.

AgriBank, FCB (AgriBank), a System bank, and its affiliated associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). Farm Credit Midsouth, ACA is one of the affiliated associations in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. The Farm Credit System Insurance Corporation (Insurance Corporation) ensures the timely payment of principal and interest on Systemwide debt obligations, the retirement of protected borrower capital at par or stated value, and is used for other specified purposes.

Forward-Looking Information

This Annual Report includes 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 "anticipate", "believe", "estimate", "may", "expect", "intend", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial, and economic conditions and developments in the United States (U.S.) and abroad,
- economic fluctuations in the agricultural and farm-related business sectors,
- unfavorable weather, disease, and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income,
- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency actions relating to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions,
- actions taken by the Federal Reserve System in implementing monetary policy,
- credit, interest rate, and liquidity risk inherent in our lending activities, and
- changes in our assumptions for determining the allowance for loan losses, other than temporary impairment, and fair value measurements.

Loan Portfolio

Total loans were $707.3 million at December 31, 2012, a decrease of $12.1 million from December 31, 2011. The components of total loans are outlined in the following table (in thousands):

As of December 31	**2012**	2011	2010
Real estate mortgage	**$340,520**	$342,882	$301,162
Production and intermediate term	**320,906**	319,927	317,440
Agribusiness	**37,040**	41,658	48,388
Finance leases	**2,223**	2,732	2,542
Other	**1,430**	757	239
Nonaccrual	**5,182**	11,439	11,639
Total loans	**$707,301**	$719,395	$681,410

The other category is comprised of rural residential real estate loans as well as loans originated under our Mission Related Investment authority.

We loaned over $185.2 million in new money during 2012, which was offset by early pay downs due to land sales. Also, contributing to the decrease in total loans were borrowers with excess funds choosing to pay down debt rather than invest due to the uncertainty in the economy.

We offer variable, fixed, indexed, and adjustable interest rate loan and fixed and adjustable interest rate lease programs to our borrowers. We determine interest margins charged on each lending program based on cost of funds, market conditions, and the need to generate sufficient earnings.

As part of a separately maintained pool, we have sold participation interests in real estate loans to AgriBank. The total participation interests in this pool were $47.9 million, $31.2 million, and $36.4 million at December 31, 2012, 2011, and 2010, respectively.

Portfolio Distribution

We are chartered to serve certain counties in Arkansas and Missouri. Approximately 96.6% of our total loan portfolio was in the state of Arkansas at December 31, 2012. Approximately 49.8% of our total loan portfolio resides in the counties of Craighead, Crittenden, Mississippi, and Poinsett at December 31, 2012.

Commodities exceeding 5% of our portfolio included: cash grains 52.5%, landlords 22.9%, and cotton 13.9%. Additional commodity concentration information is included in Note 3.

Our production and intermediate term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons as farmers' operating and capital needs rise. These loans are normally at their lowest levels during the winter months because of operating repayments following harvest.

Agricultural and Economic Conditions

Widespread drought throughout the U.S. characterized 2012. For most farmers, the drought brought low crop production and high reliance on insurance for sustaining operations. This was not the case in our territory. While Arkansas was characterized as having anywhere from “Severe” to “Exceptional Drought” conditions, our territory was generally considered under “Extreme Drought” conditions by the 2012 U.S. Drought Monitor. As stated in the University of Arkansas article “Impact of 2012 Drought on Field Crops and Cattle Production in Arkansas – Preliminary Report,” many crop producers in Arkansas were insulated from the drought due to the use of irrigation. Most of the producers in our territory were able to mitigate the adverse effects of the drought and increase yields and profitability in 2012 due to irrigation. As of the National Agricultural Statistics Service Crop Progress and Condition Report published November 26, 2012, year-to-date rainfall was anywhere from 9 – 16 inches under normal averages.

The United States Department of Agriculture (USDA) Arkansas Field Office report for cotton issued January 11, 2013 stated that while planted acreage was down 12% for Arkansas, yields were up 16.6% overall. Arkansas set record corn, rice, and soybean yields in 2012 according to the Annual Crop and Stocks report issued by the USDA on January 11, 2013.

The overall economy in Northeastern Arkansas seems to be showing slow improvement with unemployment down from a year ago in all but one of the Association's counties as published in the November 2012 Arkansas Labor Market report.

Analysis of Risk

The following table summarizes risk assets including accrued interest receivable and delinquency information (dollars in thousands):

As of December 31	**2012**	2011	2010
Loans:			
Nonaccrual	**$ 5,182**	$ 11,439	$ 11,639
Accruing restructured	**11**	13	--
Accruing loans 90 days or more past due	**--**	--	--
Total risk loans	**5,193**	11,452	11,639
Other property owned	**--**	12	--
Total risk assets	**$ 5,193**	$ 11,464	$ 11,639
Risk loans as a percentage of total loans	**0.7%**	16%	17%
Total delinquencies as a percentage of total loans	**0.6%**	0.4%	0.1%

Our risk assets are at an acceptable level and have declined significantly from December 31, 2011. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The decrease in nonaccrual loans was due to a significant payoff of loan volume that was in nonaccrual at December 31, 2011. Nonaccrual loans remained at an acceptable level at December 31, 2012, and represented 0.7% of our total portfolio. At December 31, 2012, 25.0% of our nonaccrual loans were current.

Portfolio Credit Quality

The credit quality of our portfolio improved during 2012. Adversely classified loans decreased to 0.9% of the portfolio at December 31, 2012, from 1.8% of the portfolio at December 31, 2011. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, we use government guarantee programs to reduce the risk of loss. At December 31, 2012, $2.1 million of our loans were, to some level, guaranteed under these government programs.

Analysis of the Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as loan loss history, probability of default, estimated severity of loss given default, portfolio quality, and current economic and environmental conditions.

The following table presents allowance coverage, charge-off, and adverse asset information:

As of December 31	**2012**	2011	2010
Allowance as a percentage of:			
Loans	**0.1%**	0.6%	0.7%
Nonaccrual loans	**17.9%**	38.9%	41.9%
Total risk loans	**17.9%**	38.8%	41.9%
Net charge-offs as a percentage of average loans	**--**	0.1%	--
Adverse assets to risk funds	**4.6%**	10.6%	14.2%

The decrease in our allowance as a percentage of nonaccrual loans and as a percentage of total risk loans is primarily due to decreases in our allowance for loan losses balance and nonaccrual loan volume. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2012.

Additional loan information is included in Notes 3, 10, 11, 12, and 13.

Results of Operations

The following table illustrates profitability information (dollars in thousands):

For the year ended December 31	**2012**	2011	2010
Net income	**$20,800**	$16,665	$15,349
Return on average assets	**2.7%**	2.1%	2.3%
Return on average members' equity	**14.0%**	12.4%	12.5%

Changes in these ratios relate directly to:

- changes in income as discussed below,
- changes in assets as discussed in the Loan Portfolio section, and
- changes in members' equity as discussed in the Capital Adequacy section.

The following table summarizes the changes in components of net income (in thousands):

	Year ended December 31			Increase (decrease) in net income	
	2012	2011	2010	**2012 vs 2011**	2011 vs. 2010
Net interest income	**$23,659**	$23,589	$20,372	**$70**	$3,217
(Reversal of) provision for loan losses	**(3,489)**	280	1,319	**3,769**	1,039
Patronage income	**2,905**	2,733	3,265	**172**	(532)
Other income, net	**2,193**	1,212	1,993	**981**	(781)
Operating expenses	**9,873**	9,460	9,091	**(413)**	(369)
Provision for (benefit from) income taxes	**1,573**	1,129	(129)	**(444)**	(1,258)
Net income	**$20,800**	$16,665	$15,349	**$4,135**	$1,316

Net Interest Income

Net interest income was $23.7 million for the year ended December 31, 2012. The following table quantifies changes in net interest income (in thousands):

	2012 vs. 2011	2011 vs. 2010
Changes in volume	**$477**	$2,655
Changes in rates	**(915)**	334
Changes in nonaccrual income and other	**508**	228
Net change	**$70**	$3,217

Net interest income included income on nonaccrual loans that totaled $903 thousand, $395 thousand, and $42 thousand in 2012, 2011, and 2010, respectively. Nonaccrual income is recognized when:

- received in cash,
- collection of the recorded investment is fully expected, and
- prior charge-offs have been recovered.

Net interest margin (net interest income divided by average earning assets) was 3.2%, 3.2%, and 3.1% in 2012, 2011, and 2010, respectively. We expect margins to compress in the future as interest rates rise and competition increases.

(Reversal of) Provision for Loan Losses

The variance in the provision for loan losses is related to our estimate of losses in our portfolio for the applicable years. This variance was mainly due to adjustments of specific reserves and continued improvement in credit quality. Refer to Note 3 for additional discussion.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. We recorded patronage income of $2.0 million, $2.0 million, and $2.3 million in 2012, 2011, and 2010, respectively. Changes in our note payable to AgriBank and patronage rate changes caused the variances in the patronage income amounts. The patronage rates paid by AgriBank were 32 basis points, 31 basis points, and 42 basis points in 2012, 2011, and 2010, respectively.

Since 2009 we have participated in the asset pool program with AgriBank in which we sell participation interests in certain real estate loans. As part of this program we received patronage income in an amount that approximated the net earnings of loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. In addition, we received patronage income in an amount that approximated the wholesale patronage had we retained the volume. Patronage declared on these pools is solely at the discretion of the AgriBank Board of Directors. We recorded asset pool patronage income of $915 thousand, $756 thousand, and $936 thousand in 2012, 2011, and 2010, respectively. The patronage recorded included $42 thousand and $38 thousand of our share of the distribution from the Allocated Insurance Reserve Accounts (AIRA) related to the asset pool program in 2012 and 2010, respectively. These reserve accounts were established in previous years by the Insurance Corporation when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required 2% of insured debt. No such distribution was received in 2011.

We received another component of patronage, referred to as equalization income, from AgriBank. The quarterly average balance of any excess stock investment in AgriBank is used to determine this amount. Additionally, we earn equalization on any stock investment in AgriBank required to be held when our growth exceeds a targeted growth rate. The equalization rate is set by AgriBank's Board of Directors and is targeted at the average cost of funds for all affiliated associations as a group. Equalization income totaled $10 thousand, $15 thousand, and $13 thousand for 2012, 2011, and 2010, respectively.

Other Income

The increase in other income is primarily due to the AIRA distribution, which is a result of our share of distributions from AIRA. We received $814 thousand during 2012 and $672 thousand during 2010. There was no distribution in 2011. In addition, fee income increased from new loan originations. The association sold two office buildings as part of bringing the Wynne and Forrest City offices together. A gain of $175 thousand was recognized in this category.

We originated rural home loans for resale in the secondary market. We sold loans in the secondary market totaling $4.3 million, $3.4 million, and $4.6 million in 2012, 2011, and 2010, respectively. The fee income from this activity totaled $65 thousand, $53 thousand, and $72 thousand in 2012, 2011, and 2010, respectively.

Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years (dollars in thousands):

For the year ended December 31	**2012**	2011	2010
Salaries and employee benefits	**$6,475**	$6,308	$6,070
Purchased and vendor services	**883**	765	767
Communications	**127**	117	98
Occupancy and equipment	**751**	637	736
Advertising and promotion	**257**	233	244
Examination	**279**	261	232
FCS insurance	**324**	403	299
Other	**777**	736	645
Total operating expenses	**$9,873**	$9,460	$9,091
Operating rate	**1.3%**	1.3%	1.4%

The operating expense increases were primarily related to normal salary increases, increases in Board of Directors per diem rates and quarterly retention payments, costs associated with the construction of a new facility to serve our Cross and St. Francis county customers, and costs associated with online banking website enhancements.

Provision for (Benefit from) Income Taxes

The variance in provision for (benefit from) income taxes is related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2012, 2011, and 2010. Refer to Note 8 for additional discussion.

Funding and Liquidity

Funding

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 6. During 2012, our average balance was $617.0 million with an average interest rate of 1.7%. Our average balance during 2011 was $632.9 million with an average interest rate of 2.0% and during 2010 our average balance was $551.4 million with an average interest rate of 2.2%. Our other source of lendable funds is from unallocated surplus. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Liquidity

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2012, we had $244.8 million available under our line of credit. We generally apply excess cash to this line of credit.

Capital Adequacy

Total members' equity increased $16.6 million during 2012 primarily due to net income for the period partially offset by patronage distribution accruals.

Members' equity position information follows (dollars in thousands):

As of December 31	**2012**	2011	2010
Members' equity	**$157,405**	$140,798	$128,258
Surplus as a percentage of members' equity	**98.7%**	98.5%	98.4%
Permanent capital ratio	**16.2%**	14.2%	14.1%
Total surplus ratio	**15.9%**	14.0%	13.9%
Core surplus ratio	**15.9%**	14.0%	13.9%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

At December 31, 2012, our permanent capital, total surplus, and core surplus ratios exceeded the regulatory minimum requirements. Additional discussion of these regulatory ratios is included in Note 7.

In addition to these regulatory requirements, we establish an optimum permanent capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2012, our optimum permanent capital target was 16%.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional members' equity information is included in Note 7.

Initiatives

We are involved in a number of initiatives designed to improve our credit delivery, related services, and marketplace presence.

Capital Agricultural Property Services, Inc.

We have an alliance with Capital Agricultural Property Services, Inc. who provides land management, land sales assistance, land acquisition assistance, and consulting services. We receive income through rental of office space.

Trade Credit

We have entered into agreements with certain dealer networks to provide alternative service delivery channels to borrowers. These trade credit opportunities create more flexible and accessible financing options to borrowers through programs such as dealer point-of-purchase financing.

Farm Cash Management

We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank investment bond to optimize members' use of funds.

Agriculture and Rural Community Bond Program

We participate in the Agriculture and Rural Community Bond Program authorized during 2006 by the FCA in order to meet the changing needs of agriculture and rural America by making investments that support farmers, ranchers, agribusinesses, and their rural communities and businesses. These investments will help to increase their well-being and prosperity by providing an adequate flow of capital into rural areas. We had $1.1 million, $465 thousand, and $14 thousand of volume under this program at December 31, 2012, 2011, and 2010, respectively.

Relationship with AgriBank

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement, as discussed in Note 6, governs this lending relationship.

Cost of funds under the General Financing Agreement includes:

- a marginal cost of debt component,
- a spread component, which includes cost of servicing, cost of liquidity, and bank profit, and
- a risk premium component, if applicable.

The marginal cost of debt approach simulates matching the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This methodology substantially protects us from market interest rate risk.

In the periods presented, we were not subject to the risk premium component.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. As of December 31, 2012, we were required to maintain a stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. However, AgriBank currently has not communicated a plan to increase the required investment.

In addition, we are required to hold AgriBank stock equal to 8.0% of the quarter end asset pool program participation loan balance.

At December 31, 2012, $16.4 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $3.1 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

Patronage

We receive different types of discretionary patronage from AgriBank. AgriBank's Board of Directors sets the level of patronage for each of the following:

- patronage on our note payable with AgriBank,
- patronage based on the balance and net earnings of the pool of loans sold to AgriBank, and
- equalization income based on our excess stock or growth required stock investment in AgriBank.

Patronage income on our note payable with AgriBank was received in the form of cash and AgriBank stock.

Purchased Services

We purchase various services from AgriBank including certain:

- financial and retail systems, support, and reporting,
- technology services,
- insurance services, and
- internal audit services.

The total cost of services we purchased from AgriBank was $523 thousand, $515 thousand, and $498 thousand in 2012, 2011, and 2010, respectively. Beginning in January 2012, benefit, human resource information systems, payroll, and workforce management services were purchased from Farm Credit Foundations (Foundations).

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of the AgriBank and the combined AgriBank and Affiliated Associations' financial reports contact us at 3000 Prosperity Drive, Jonesboro, Arkansas 72404, (870) 932-2288 or through our website at www.farmcreditmidsouth.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail to agribankmn@agribank.com. The reports are also available through AgriBank's website at www.agribank.com.

To request free copies of our Annual or Quarterly Reports contact us as stated above. The Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website approximately 40 days after the end of each calendar quarter.

Relationship with Other Farm Credit Institutions

Insight Technology Unit

We participate in the Insight Technology Unit (Insight) with certain other AgriBank District associations to facilitate the development and maintenance of certain technology systems essential to providing credit to our borrowers. Insight is governed by representatives of each participating association. The expenses are shared pro rata based on the number of loans and leases of each participant.

Investment in Other Farm Credit Institutions

We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing or selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $1 thousand at December 31, 2012, 2011, and 2010, respectively. CoBank provides direct loan funds to associations in its chartered territory and also makes loans to cooperatives and other eligible borrowers.

In addition, we have a relationship with Foundations which involves purchasing benefit, human resource information systems, payroll, and workforce management services. Foundations was operated as part of AgriBank prior to January 1, 2012 when it formed a System service corporation and thus is no longer operated as part of AgriBank. As of December 31, 2012, our investment in Foundations was $14 thousand. The total cost of services we purchased from Foundations was $66 thousand in 2012.

REPORT OF MANAGEMENT

Farm Credit Midsouth, ACA

We prepare the consolidated financial statements of Farm Credit Midsouth, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that on the consolidated financial statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the consolidated financial statements. They also conduct a review of internal controls to the extent necessary to comply with generally accepted auditing standards in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report and it has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Jane Pirani

Jane Pirani
Chairperson of the Board
Farm Credit Midsouth, ACA

James McJunkins
President and Chief Executive Officer
Farm Credit Midsouth, ACA

Shari J. Wilson

Shari J. Wilson
Chief Financial Officer
Farm Credit Midsouth, ACA

March 12, 2013

REPORT OF AUDIT COMMITTEE

Farm Credit Midsouth, ACA

The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of four members of the Board of Directors of Farm Credit Midsouth, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated 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 consolidated financial statements in accordance with generally accepted auditing standards in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2012, with management. The Audit 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 both PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC such other matters and received such assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2012.

Gary Sitzer
Chairperson of the Audit Committee
Farm Credit Midsouth, ACA

Members of the Audit Committee include: Matt Knight and Carl A. Loewer

March 12, 2013

Independent Auditor's Report

To the Board of Directors and Members of Farm Credit Midsouth, ACA,

We have audited the accompanying consolidated financial statements of Farm Credit Midsouth, ACA (the Association) and its subsidiaries, which comprise the consolidated statements of condition as of December 31, 2012, 2011 and 2010, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit Midsouth, ACA and its subsidiaries at December 31, 2012, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 12, 2013

PricewaterhouseCoopers LLP, 225 South Sixth Street, Suite 1400, Minneapolis, MN 55402
T: (612) 596 6000, www.pwc.com/us

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Midsouth, ACA

(in thousands)

As of December 31	**2012**	2011	2010
ASSETS			
Loans	**$707,301**	$719,395	$681,410
Allowance for loan losses	**930**	4,449	4,882
Net loans	**706,371**	714,946	676,528
Investment in AgriBank, FCB	**19,570**	20,127	18,555
Accrued interest receivable	**12,698**	16,501	15,158
Premises and equipment, net	**4,357**	4,028	3,643
Other property owned	**--**	12	--
Assets held for lease, net	**772**	1,170	1,426
Other assets	**2,685**	3,038	4,078
Total assets	**$746,453**	$759,822	$719,388
LIABILITIES			
Note payable to AgriBank, FCB	**$578,680**	$608,258	$580,789
Accrued interest payable	**2,460**	3,157	3,075
Deferred tax liabilities, net	**783**	545	123
Patronage distribution payable	**4,200**	4,200	4,100
Other liabilities	**2,925**	2,864	3,043
Total liabilities	**589,048**	619,024	591,130
Contingencies and commitments	**--**	--	--
MEMBERS' EQUITY			
Protected members' equity	**5**	5	5
Capital stock and participation certificates	**2,077**	2,070	1,995
Unallocated surplus	**155,323**	138,723	126,258
Total members' equity	**157,405**	140,798	128,258
Total liabilities and members' equity	**$746,453**	$759,822	$719,388

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Midsouth, ACA

(in thousands)

Year ended December 31	**2012**	2011	2010
Interest income	**$ 34,401**	$ 35,937	$ 32,455
Interest expense	**10,742**	12,348	12,083
Net interest income	**23,659**	23,589	20,372
(Reversal of) provision for loan losses	**(3,489)**	280	1,319
Net interest income after (reversal of) provision for loan losses	**27,148**	23,309	19,053
Other income			
Patronage income	**2,905**	2,733	3,265
Financially related services income	**737**	893	881
Fee income	**226**	130	131
Allocated insurance reserve accounts distribution	**814**	--	672
Miscellaneous income, net	**416**	189	309
Total other income	**5,098**	3,945	5,258
Operating expenses			
Salaries and employee benefits	**6,475**	6,308	6,070
Other operating expenses	**3,398**	3,152	3,021
Total operating expenses	**9,873**	9,460	9,091
Income before income taxes	**22,373**	17,794	15,220
Provision for (benefit from) income taxes	**1,573**	1,129	(129)
Net income	**$ 20,800**	$ 16,665	$ 15,349

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Midsouth, ACA

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2009	$5	$1,937	$115,029	$116,971
Net income	--	--	15,349	15,349
Unallocated surplus designated for patronage distributions	--	--	(4,120)	(4,120)
Capital stock/participation certificates issued	--	188	--	188
Capital stock/participation certificates retired	--	(130)	--	(130)
Balance at December 31, 2010	5	1,995	126,258	128,258
Net income	--	--	16,665	16,665
Unallocated surplus designated for patronage distributions	--	--	(4,200)	(4,200)
Capital stock/participation certificates issued	--	185	--	185
Capital stock/participation certificates retired	--	(110)	--	(110)
Balance at December 31, 2011	**5**	**2,070**	**138,723**	**140,798**
Net income	**--**	**--**	**20,800**	**20,800**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(4,200)**	**(4,200)**
Capital stock/participation certificates issued	**--**	**190**	**--**	**190**
Capital stock/participation certificates retired	**--**	**(183)**	**--**	**(183)**
Balance at December 31, 2012	**$5**	**$2,077**	**$155,323**	**$157,405**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Farm Credit Midsouth, ACA

(in thousands)

Year ended December 31	**2012**	2011	2010
Cash flows from operating activities			
Net income	**$ 20,800**	$ 16,665	$ 15,349
Depreciation on premises and equipment	**259**	247	305
Gain on sale of premises and equipment	**(175)**	--	--
Depreciation on assets held for lease	**283**	444	475
Gain on disposal of assets held for lease	**(4)**	--	--
(Reversal of) provision for loan losses	**(3,489)**	280	1,319
Stock patronage received from AgriBank, FCB	**(875)**	(1,229)	(834)
(Gain) loss on other property owned	**(10)**	(9)	4
Changes in operating assets and liabilities:			
Accrued interest receivable	**3,788**	(1,346)	(1,840)
Other assets	**367**	1,040	(893)
Accrued interest payable	**(697)**	82	(85)
Other liabilities	**299**	243	(649)
Net cash provided by operating activities	**20,546**	16,417	13,151
Cash flows from investing activities			
Decrease (increase) in loans, net	**12,174**	(38,597)	(76,201)
Redemptions (purchases) of investment in AgriBank, FCB, net	**1,432**	(343)	546
Purchases of investment in other Farm Credit Institutions, net	**(14)**	--	--
Sales (purchases) of assets held for lease, net	**119**	(188)	(386)
Proceeds from sales of other property owned	**22**	9	16
Purchases of premises and equipment, net	**(413)**	(632)	(293)
Net cash provided by (used in) investing activities	**13,320**	(39,751)	(76,318)
Cash flows from financing activities			
(Decrease) increase in note payable to AgriBank, FCB, net	**(29,578)**	27,469	67,331
Patronage distributions	**(4,200)**	(4,100)	(4,121)
Capital stock and participation certificates retired, net	**(88)**	(35)	(43)
Net cash (used in) provided by financing activities	**(33,866)**	23,334	63,167
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$ 173**	$ 156	$ 165
Stock applied against loan principal	**78**	46	64
Interest transferred to loans	**15**	3	1
Loans transferred to other property owned	**--**	12	19
Patronage distributions payable to members	**4,200**	4,200	4,100
Supplemental information			
Interest paid	**$ 11,439**	$ 12,266	$ 12,168
Taxes paid	**986**	231	486

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Farm Credit Midsouth, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2012, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 82 associations. AgriBank, FCB (AgriBank), a System bank, and its affiliated associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At December 31, 2012, the District consisted of 17 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used:

- to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations,
- to ensure the retirement of protected borrower capital at par or stated value, and
- for other specified purposes.

At the discretion of the Insurance Corporation, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the Insurance Corporation, at its sole discretion, to a percentage it determines to be actuarially sound.

The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to the associations each year based on similar factors.

Association

Farm Credit Midsouth, ACA and its subsidiaries, Farm Credit Midsouth, FLCA and Farm Credit Midsouth**,** PCA (the subsidiaries) are lending institutions of the System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Clay, Craighead, Crittenden, Cross, Desha (that part lying northeast of the White River), Greene, Lee, Mississippi, Phillips, Poinsett, and St. Francis in the state of Arkansas and Carter, Ripley, and Wayne in the state of Missouri.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries.

We, along with certain other System institutions, own Farm Credit Foundations (Foundations) which provides benefit, human resource information systems, payroll, and workforce management services.

We offer various risk management services, including credit life, term life, credit disability, crop hail, and multi-peril crop insurance for borrowers and those eligible to borrow. We also offer fee appraisals services to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements present the consolidated financial results of Farm Credit Midsouth, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Other loan fees are netted with the related origination costs and included as an adjustment to net interest income. The net amount of these fees and expenses are not material to the consolidated financial statements taken as a whole.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior charge-offs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected,
- the borrower has demonstrated payment performance, and
- the loan is not classified as doubtful or loss.

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as formally restructured. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses in our loan portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as:

- loan loss history,
- probability of default,
- severity of loss given default,
- portfolio quality, and
- current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance for impaired loans. A loan is impaired when it is probable that all amounts due under the contractual terms of the loan agreement will not be collected. We generally measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- accruing restructured loans, and
- accruing loans 90 days or more past due.

We record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss given default. The combination of estimated default probability and loss given default is the primary basis for recognition and measurement of loan collectability of these pools of loans.

Changes in the allowance for loan losses consist of provision activity, (recorded in "(Reversal of) provision for loan losses" on the Consolidated Statements of Income), recoveries, and charge-offs.

Investment in AgriBank: Accounting for our stock investment in AgriBank is on a cost plus allocated equities basis.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in "Miscellaneous income, net" on the Consolidated Statements of Income. Depreciation and maintenance and repairs expenses are included in "Other operating expenses" on the Consolidated Statements of Income and improvements are capitalized.

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. 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. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in "Miscellaneous income, net" on the Consolidated Statements of Income.

Leases: We have finance and operating leases. Under finance leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance income to earnings using the interest method. The carrying amount of finance leases is included in "Loans" on the Consolidated Statements of Condition and represents lease rent receivables net of the unearned income plus the residual receivable. We recognize operating lease revenue evenly over the term of the lease in "Miscellaneous income, net" on the Consolidated Statements of Income. We charge depreciation and other expenses against revenue as incurred. The carrying amount of operating leases is included in "Assets held for lease, net" on the Consolidated Statements of Condition and represents the asset cost net of accumulated depreciation.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which Association employees participate.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee's contributions. We provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the defined benefit retirement plan of the District. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001 are on the cash balance formula or on the final average pay formula. Between October 1, 2001 and December 31, 2006, all new benefits-eligible employees are on the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting purposes and the "Entry Age Normal Cost" method for funding purposes.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees' active service period.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

Statements of Cash Flows: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements" 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 reporting entity has the ability to access at the measurement date.

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:

- quoted prices for similar assets or liabilities in active markets,
- quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly,
- inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates, and
- inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect our own assumptions about 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.

Recently Issued or Adopted Accounting Pronouncements

In December 2011, the FASB issued guidance entitled, "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retroactively for all comparative periods and is effective for annual and interim reporting periods beginning on or after January 1, 2013. The adoption of this guidance will have no impact on our consolidated financial condition or consolidated results of operations.

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 multiemployer pension and post-employment benefit plans which should help financial statement users better understand the financial health of significant plans in which the employer participates. For non-public entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2012. The adoption of this guidance did not have any impact on our consolidated financial condition or consolidated results of operations, but resulted in additional disclosures in Note 9.

In June 2011, the FASB issued guidance entitled, "Presentation of Comprehensive Income." The guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement — referred to as the Statement of Comprehensive Income — or in two separate, but consecutive, statements. The guidance is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. For non-public entities, the guidance is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The adoption of the guidance did not have any impact on our consolidated financial condition or consolidated results of operations. If, in future periods, we have other comprehensive income, expanded financial statement presentation will be required.

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 International Financial Reporting Standards (IFRS)." The guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The amendments include the following:

- Application of the highest and best use valuation premise is only relevant when measuring the fair value of nonfinancial assets.
- 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 market risks such as interest rate risk and credit risk of counterparties.
- Expansion of the disclosures about fair value 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.

The amendments are to be applied prospectively. For non-public entities, the amendments are effective for annual periods beginning after December 15, 2011. The adoption of this guidance did not have any impact on our consolidated financial condition or consolidated results of operations and did not result in additional disclosures at this time.

In April 2011, the FASB issued guidance entitled, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." The guidance provides additional clarification to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring. The guidance is effective for non-public entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance did not have a significant impact on our consolidated financial condition or consolidated results of operations and did not result in additional disclosures.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

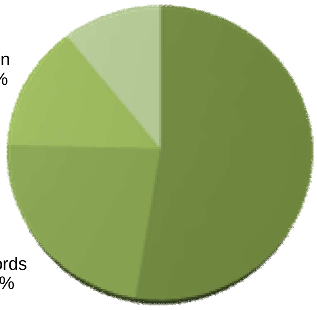
	2012		2011		2010	
As of December 31	Amount	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 341,710**	**48.3%**	$ 345,907	48.0%	$ 303,642	44.6%
Production and intermediate term	**322,424**	**45.6%**	324,982	45.2%	322,365	47.3%
Agribusiness	**39,514**	**5.6%**	45,017	6.3%	52,622	7.7%
Finance leases	**2,223**	**0.3%**	2,732	0.4%	2,542	0.4%
Other	**1,430**	**0.2%**	757	0.1%	239	--
Total	**$ 707,301**	**100.0%**	$ 719,395	100.0%	$ 681,410	100.0%

The other category is comprised of rural residential real estate related loans as well as loans originated under our Mission Related Investment authority.

Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities, and within our chartered territory. At December 31, 2012, volume plus commitments to our ten largest borrowers totaled an amount equal to 12.0% of total loans and commitments.

Our agricultural commodity concentrations at December 31, 2012, were as follows:



The commodity concentrations have not changed materially from prior years.

We are chartered to operate in certain counties in Arkansas and Missouri. Approximately 96.6% of our total loan portfolio was in the state of Arkansas at December 31, 2012. Approximately 49.8% of our total loan portfolio was in Craighead, Crittenden, Mississippi, and Poinsett counties at December 31, 2012.

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities are collateralized. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan losses.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with FCA Regulations or General Financing Agreement (GFA) limitations. The following table presents information regarding participations purchased and sold (in thousands):

	AgriBank, FCB		Other Farm Credit Institutions		Total	
	Participations		Participations		Participations	
As of December 31, 2012	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**($50,565)**	**$4,767**	**($4,135)**	**$4,767**	**($54,700)**
Production and intermediate term	**--**	**(1,746)**	**3,194**	**(351)**	**3,194**	**(2,097)**
Agribusiness	**--**	**(22,271)**	**4,087**	**(2,211)**	**4,087**	**(24,482)**
Total	**$ --**	**($74,582)**	**$12,048**	**($6,697)**	**$12,048**	**($81,279)**
As of December 31, 2011						
Real estate mortgage	$ --	($28,413)	$1,863	($4,093)	$1,863	($32,506)
Production and intermediate term	--	(2,921)	1,634	(65)	1,634	(2,986)
Agribusiness	--	(25,125)	5,315	(3,318)	5,315	(28,443)
Total	$ --	($56,459)	$8,812	($7,476)	$8,812	($63,935)

Information in the preceding chart excludes loans entered into under our Mission Related Investment authority.

In July 2012, we sold $19.8 million in participation interests under the asset pool program to AgriBank. These loan participations were added to the participation pool originally established by AgriBank in 2009. Additionally, we were required to purchase additional AgriBank stock as a result of this transaction in order to maintain the required investment equal to 8.0% of the loans we have sold under this program.

Credit Quality and Delinquency

One credit quality indicator we utilize is the FCA Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

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

The following table summarizes loans and related accrued interest classified under the FCA Uniform Classification System by loan type (dollars in thousands):

	Acceptable		OAEM		Substandard/ Doubtful/Loss		Total	
As of December 31, 2012	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$344,130**	**99.0%**	**$1,843**	**0.5%**	**$1,674**	**0.5%**	**$347,647**	**100.0%**
Production and intermediate term	**325,849**	**99.1%**	**629**	**0.2%**	**2,272**	**0.7%**	**328,750**	**100.0%**
Agribusiness	**37,467**	**93.8%**	**--**	**--**	**2,475**	**6.2%**	**39,942**	**100.0%**
Finance leases	**2,223**	**100.0%**	**--**	**--**	**--**	**--**	**2,223**	**100.0%**
Other	**1,437**	**100.0%**	**--**	**--**	**--**	**--**	**1,437**	**100.0%**
Total loan portfolio	**$711,106**	**98.8%**	**$2,472**	**0.3%**	**$6,421**	**0.9%**	**$719,999**	**100.0%**
As of December 31, 2011								
Real estate mortgage	$342,835	96.9%	$6,476	1.8%	$4,643	1.3%	$353,954	100.0%
Production and intermediate term	307,620	92.4%	19,943	6.0%	5,283	1.6%	332,846	100.0%
Agribusiness	42,244	92.6%	--	--	3,358	7.4%	45,602	100.0%
Finance leases	2,732	100.0%	--	--	--	--	2,732	100.0%
Other	762	100.0%	--	--	--	--	762	100.0%
Total loan portfolio	$696,193	94.6%	$26,419	3.6%	$13,284	1.8%	$735,896	100.0%

The following table provides an aging analysis of past due loans and related accrued interest by loan type (in thousands):

As of December 31, 2012	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	90 Days Past Due and Accruing
Real estate mortgage	**$188**	**$ --**	**$188**	**$347,459**	**$347,647**	**$ --**
Production and intermediate term	**342**	**1,414**	**1,756**	**326,994**	**328,750**	**--**
Agribusiness	**--**	**2,475**	**2,475**	**37,467**	**39,942**	**--**
Finance leases	**--**	**--**	**--**	**2,223**	**2,223**	**--**
Other	**--**	**--**	**--**	**1,437**	**1,437**	**--**
Total	**$530**	**$3,889**	**$4,419**	**$715,580**	**$719,999**	**$ --**
As of December 31, 2011						
Real estate mortgage	$366	$ --	$366	$353,588	$353,954	$ --
Production and intermediate term	1,534	790	2,324	330,522	332,846	--
Agribusiness	--	--	--	45,602	45,602	--
Finance leases	--	--	--	2,732	2,732	--
Other	--	--	--	762	762	--
Total	$1,900	$790	$2,690	$733,206	$735,896	$ --

Risk Loans

A loan is considered a risk loan if it is probable that we will be unable to collect all principal and interest according to the loan agreement. The following table presents risk loan information (in thousands).

As of December 31	**2012**	2011	2010
Nonaccrual loans:			
Current	**$ 1,293**	$9,024	$10,902
Past due	**3,889**	2,415	737
Total nonaccrual loans	**5,182**	11,439	11,639
Accruing restructured loans	**11**	13	--
Accruing loans 90 days or more past due	**--**	--	--
Total risk loans	**$ 5,193**	$11,452	$11,639
Volume with specific reserves	**$ 100**	$6,503	$6,813
Volume without specific reserves	**5,093**	4,949	4,826
Total risk loans	**$ 5,193**	$11,452	$11,639
Total specific reserves	**$ 99**	$3,129	$3,531

For the year ended December 31	**2012**	2011	2010
Income on accrual risk loans	**$ 1**	$ --	$20
Income on nonaccrual loans	**903**	395	42
Total income on risk loans	**$ 904**	$395	$62
Average recorded investment	**$ 7,648**	$11,786	$9,084

The decrease in nonaccrual loans was due to a significant payoff of loan volume that was in nonaccrual at December 31, 2011.

Nonaccrual loans by loan type were as follows (in thousands):

As of December 31	**2012**	2011	2010
Nonaccrual loans:			
Real estate mortgage	**$ 1,190**	$3,026	$2,481
Production and intermediate term	**1,517**	5,055	4,924
Agribusiness	**2,475**	3,358	4,234
Total nonaccrual loans	**$ 5,182**	$11,439	$11,639

There were no loans 90 days or more past due and still accruing interest at December 31, 2012, 2011, and 2010.

All risk loans are considered to be impaired loans. The following table provides additional impaired loan information (in thousands):

	As of December 31, 2012			For the period ended December 31, 2012	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	**$ --**	**$ --**	**$ --**	**$ --**	**$ --**
Production and intermediate term	**100**	**112**	**99**	**180**	**--**
Agribusiness	**--**	**--**	**--**	**2,370**	**--**
Total	**$ 100**	**$ 112**	**$ 99**	**$ 2,550**	**$ --**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	**$ 1,191**	**$ 1,188**	**$ --**	**$ 2,520**	**$ 480**
Production and intermediate term	**1,428**	**1,421**	**--**	**2,578**	**424**
Agribusiness	**2,474**	**3,086**	**--**	**--**	**--**
Total	**$ 5,093**	**$ 5,695**	**$ --**	**$ 5,098**	**$ 904**
Total impaired loans:					
Real estate mortgage	**$ 1,191**	**$ 1,188**	**$ --**	**$ 2,520**	**$ 480**
Production and intermediate term	**1,528**	**1,533**	**99**	**2,758**	**424**
Agribusiness	**2,474**	**3,086**	**--**	**2,370**	**--**
Total	**$ 5,193**	**$ 5,807**	**$ 99**	**$ 7,648**	**$ 904**

	As of December 31, 2011			For the period ended December 31, 2011	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate term	3,145	3,253	700	2,197	--
Agribusiness	3,358	3,895	2,429	5,041	--
Total	$6,503	$7,148	$3,129	$7,238	$ --
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$3,026	$3,028	$ --	$2,780	$48
Production and intermediate term	1,923	1,853	--	1,733	203
Agribusiness	--	--	--	35	144
Total	$4,949	$4,881	$ --	$4,548	$395
Total impaired loans:					
Real estate mortgage	$3,026	$3,028	$ --	$2,780	$48
Production and intermediate term	5,068	5,106	700	3,930	203
Agribusiness	3,358	3,895	2,429	5,076	144
Total	$11,452	$12,029	$3,129	$11,786	$395

[1]The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.
[2]Unpaid principal balance represents the contractual principal balance of the loan.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2012.

Troubled Debt Restructurings

Included within our loans are troubled debt restructurings, also known as formally restructured. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. Loans classified as troubled debt restructurings are considered risk loans. All risk loans are analyzed within our allowance for loan losses.

There were no troubled debt restructurings during the twelve months ended December 31, 2012. We completed troubled debt restructurings of certain production and intermediate term loans during the twelve months ended December 31, 2011. Our recorded investment in these loans just prior to restructuring was $2.2 million for the period ending December 31, 2011. Our recorded investment in these loans immediately following the restructuring was

$2.2 million at December 31, 2011. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

There were no troubled debt restructurings that defaulted during the years ended December 31, 2012 or 2011 in which the modification was within 12 months of the beginning of the respective reporting period.

Troubled debt restructurings outstanding at December 31, 2012 totaled $1.4 million, of which $1.4 million were in nonaccrual status compared to $2.3 million at December 31, 2011 of which $2.3 million were in nonaccrual status. There were no additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at December 31, 2012.

Allowance for Loan Losses

A summary of the changes in the allowance for loan losses follows (in thousands):

For the year ended December 31	**2012**	2011	2010
Balance at beginning of year	**$4,449**	$4,882	$3,567
(Reversal of) provision for loan losses	**(3,489)**	280	1,319
Loan recoveries	**--**	--	--
Loan charge-offs	**(30)**	(713)	(4)
Balance at end of year	**$930**	$4,449	$4,882

The decrease in allowance is directly related to the reduction in risk assets within the portfolio from repayment and revaluation. In addition, many borrowers were able to reduce inventory levels during 2012 at favorable prices, which allowed them to replenish working capital and strengthen our loan portfolio.

A summary of changes in the allowance for loan losses and period end recorded investments in loans by loan type follows (in thousands):

	Real estate mortgage	Production and intermediate term	Agribusiness	Finance leases	Other	Total
Allowance for loan losses:						
Balance at December 31, 2011	**$91**	**$1,172**	**$3,184**	**$2**	**$ --**	**$4,449**
Provision for (reversal of) loan losses	**69**	**(403)**	**(3,158)**	**2**	**1**	**(3,489)**
Loan recoveries	**--**	**--**	**--**	**--**	**--**	**--**
Loan charge-offs	**--**	**(30)**	**--**	**--**	**--**	**(30)**
Balance at December 31, 2012	**$160**	**$739**	**$26**	**$4**	**$1**	**$930**
Ending balance: individually evaluated for impairment	**$ --**	**$99**	**$ --**	**$ --**	**$ --**	**$99**
Ending balance: collectively evaluated for impairment	**$160**	**$640**	**$26**	**$4**	**$1**	**$831**
Recorded investments in loans outstanding:						
Ending balance at December 31, 2012	**$347,647**	**$328,750**	**$39,942**	**$2,223**	**$1,437**	**$719,999**
Ending balance: individually evaluated for impairment	**$1,191**	**$1,528**	**$2,474**	**$ --**	**$ --**	**$5,193**
Ending balance: collectively evaluated for impairment	**$346,456**	**$327,222**	**$37,468**	**$2,223**	**$1,437**	**$714,806**
Allowance for loan losses:						
Balance at December 31, 2010	$ --	$2,220	$2,662	$ --	$ --	$4,882
Provision for (reversal of) loan losses	91	(1,047)	1,234	2	--	280
Loan recoveries	--	--	--	--	--	--
Loan charge-offs	--	(1)	(712)	--	--	(713)
Balance at December 31, 2011	$91	$1,172	$3,184	$2	$ --	$4,449
Ending balance: individually evaluated for impairment	$ --	$700	$2,429	$ --	$ --	$3,129
Ending balance: collectively evaluated for impairment	$91	$472	$755	$2	$ --	$1,320
Recorded investments in loans outstanding:						
Ending balance at December 31, 2011	$353,954	$332,846	$45,602	$2,732	$762	$735,896
Ending balance: individually evaluated for impairment	$3,026	$5,068	$3,358	$ --	$ --	$11,452
Ending balance: collectively evaluated for impairment	$350,928	$327,778	$42,244	$2,732	$762	$724,444

NOTE 4: INVESTMENT IN AGRIBANK

At December 31, 2012, we were required by AgriBank to maintain an investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate.

At December 31, 2012, we were also required by AgriBank to maintain an investment equal to 8.0% of the quarter end balance of the participation interests in real estate loans sold to AgriBank under the asset pool program.

The balance of our investment in AgriBank, all required stock, was $19.6 million, $20.1 million, and $18.6 million at December 31, 2012, 2011, and 2010, respectively.

NOTE 5: PREMISES AND EQUIPMENT

Premises and equipment consisted of the following (in thousands):

As of December 31	**2012**	2011	2010
Land, buildings, and improvements	**$5,666**	$4,936	$4,937
Furniture and equipment	**1,172**	1,586	1,026
Subtotal	**6,838**	6,522	5,963
Less: accumulated depreciation	**(2,481)**	(2,494)	(2,320)
Total	**$4,357**	$4,028	$3,643

NOTE 6: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and our assets serve as collateral. The total line of credit was $825.0 million, $825.0 million, and $750.0 million at December 31, 2012, 2011, and 2010, respectively, and the outstanding principal under the line of credit was $578.7 million, $608.3 million, and $580.8 million at December 31, 2012, 2011, and 2010, respectively. The interest rate is adjusted monthly and was 1.6%, 2.0%, and 2.1% at December 31, 2012, 2011, and 2010, respectively. The maturity date is April 30, 2013, for our note payable, at which time the note will be renegotiated.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. At December 31, 2012, and throughout the year, we were within the specified limitations and in compliance with all debt covenants.

NOTE 7: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, our Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or $1 thousand, whichever is less. The purchase of participation certificates at 2% or $1 thousand per lease level is required for all lease only customers. In addition, the purchase of one participation certificate is required of all customers who purchase financial services and are not a stockholder. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan or lease is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Protection Mechanisms

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If we were to be unable to retire protected borrower equity at par value or stated value, the Insurance Corporation would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Under capital adequacy regulations, we are required to maintain a permanent capital ratio of at least 7.0%, a total surplus ratio of at least 7.0%, and a core surplus ratio of at least 3.5%. The calculation of these ratios in accordance with FCA Regulations is discussed as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2012, our ratio was 16.2%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2012, our ratio was 15.9%.

- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any excess stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2012, our ratio was 15.9%.

We have an agreement with AgriBank which defines how our investment in AgriBank is allocated in calculating regulatory capital ratios. According to the agreement, we include in our ratios all of our investment in AgriBank that is in excess of the required amount. We no longer have any excess stock at December 31, 2012, 2011, or 2010, respectively.

Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2012. All shares and participation certificates were with a $5.00 par value.

	Shares Outstanding
Class A common stock (protected)	**1,020**
Class B common stock (at-risk)	**2,355**
Class C common stock (at-risk)	**406,738**
Series 2 participation certificates (at-risk)	**6,702**

Under our bylaws, we are also authorized to issue Class D, Class E common stock, and Class F preferred stock. Each of these classes of stock is at-risk and nonvoting with a $5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2012, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- first, to holders of preferred stock, and
- second, pro rata to holders of all classes of common stock and participation certificates.

In the event of impairment, losses will be absorbed by concurrent impairment of all classes of common stock and participation certificates, then by holders of preferred stock. However, protected stock will be retired at par value regardless of impairment.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of $4.2 million, $4.2 million, and $4.1 million at December 31, 2012, 2011, and 2010, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2013.

NOTE 8: INCOME TAXES

Provision for (Benefit from) Income Taxes

Our provision for (benefit from) income taxes follows (dollars in thousands):

For the year ended December 31	**2012**	2011	2010
Current:			
Federal	**$1,095**	$585	$99
State	**240**	122	24
Total current	**1,335**	707	123
Deferred:			
Federal	**197**	362	(220)
State	**41**	60	(32)
Total deferred	**238**	422	(252)
Provision for (benefit from) income taxes	**$1,573**	$1,129	($129)
Effective tax rate	**7.0%**	6.3%	(0.8%)

The following table quantifies the differences between the provision for (benefit from) income taxes and income taxes at the statutory rates (in thousands):

For the year ended December 31	**2012**	2011	2010
Federal tax at statutory rate (34%)	**$7,606**	$6,050	$5,250
State tax, net	**177**	125	(3)
Patronage distributions	**(1,428)**	(1,428)	(1,394)
Effect of non-taxable entity	**(4,815)**	(3,661)	(3,883)
Other	**33**	43	(99)
Provision for (benefit from) income taxes	**$1,573**	$1,129	($129)

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition. Deferred tax assets and liabilities were composed of the following (in thousands):

As of December 31	**2012**	2011	2010
Allowance for loan losses	**$307**	$691	$970
Postretirement benefit accrual	**164**	164	163
Accrued incentive	**264**	284	324
Net operating loss carryforward	**--**	--	68
Leasing related, net	**(661)**	(764)	(557)
Accrued patronage income not received	**(192)**	(221)	(340)
AgriBank, FCB 2002 allocated stock	**(329)**	(328)	(328)
Accrued pension asset	**(384)**	(389)	(441)
Depreciation	**--**	(14)	(15)
Other assets	**48**	32	33
Deferred tax liabilities, net	**($783)**	($545)	($123)
Gross deferred tax assets	**$783**	$1,171	$1,558
Gross deferred tax liabilities	**($1,566)**	($1,716)	($1,681)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2012, 2011, or 2010.

We have not provided for deferred income taxes on approximately $11.3 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $119.9 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various U.S. taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2012. In addition, we believe we are no longer subject to income tax examinations for years prior to 2009.

NOTE 9: EMPLOYEE BENEFIT PLANS

The Farm Credit Foundations Coordinating and Trust Committees provide consideration and oversight of the benefit plans. The governance committees are either elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Coordinating Committee is responsible for decisions regarding benefits at the direction of the participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

The funded status of the post-employment benefit plans is recorded at the District level only. Additional District level financial information for these plans may be found in the "District Level Pension and Post-Employment Benefit Plans Disclosures" section of this footnote.

Pension Benefit Plans

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

The defined benefit pension plan reflects a District-wide unfunded liability totaling $442.6 million at December 31, 2012. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the District-wide plan was $1.1 billion, $934.8 million, and $834.2 million at December 31, 2012, 2011, and 2010, respectively. The fair value of the plan assets was $640.1 million, $557.6 million, and $573.0 million at December 31, 2012, 2011, and 2010, respectively. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Total plan expense for participating employers was $52.7 million, $44.0 million, and $37.0 million for 2012, 2011, and 2010, respectively. Our allocated share of plan expenses included in "Salaries and employee benefits" on the Consolidated Statements of Income was $1.0 million, $863 thousand, and $682 thousand for 2012, 2011, and 2010, respectively. Participating employers contributed $51.3 million, $27.9 million, and $25.3 million to the plan in 2012, 2011, and 2010, respectively. Our allocated share of these pension contributions were $993 thousand, $538 thousand, and $446 thousand in 2012, 2011, and 2010, respectively. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plans during 2013 is $57.2 million. Our allocated share of these pension contributions is expected to be $1.1 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Nonqualified Retirement Plan: There is also a District-wide non-qualified defined benefit Pension Restoration Plan, which we do not participate in. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above the Internal Revenue Code compensation or other limits. Costs are determined for each individual employer based on costs directly related to their current employees. Total Pension Restoration Plan expense for participating employers was $2.4 million, $2.5 million, and $1.7 million for 2012, 2011, and 2010, respectively.

Other Post-Employment Benefit Plans

Retiree Medical Plans: District employers provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status. Post-employment benefits included in "Salaries and employee benefits" on the Consolidated Statements of Income were $35 thousand, $39 thousand, and $42 thousand for 2012, 2011, and 2010, respectively, reflecting income related to amortization of actuarial gains in excess of current service costs and interest. Our cash contributions were equal to the benefits paid and were $30 thousand, $33 thousand, and $33 thousand for 2012, 2011, and 2010, respectively.

Retirement Savings Plan

We also participate in a retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2% and 50 cents on the dollar on the next 4% on both pre-tax and post-tax contributions. The maximum employer match is 4%. For employees hired after December 31, 2006, we contribute 3% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6% on both pre-tax and post-tax contributions. The maximum employer contribution is 9%. Employer expenses are included in "Salaries and employee benefits" on the Consolidated Statements of Income under the plan were $233 thousand, $222 thousand, and $207 thousand in 2012, 2011, and 2010, respectively. These expenses are equal to our cash contributions for each year.

District Level Pension and Post-Employment Benefit Plans Disclosures

AgriBank and all affiliated Associations with the exception of Farm Credit Services of America, ACA participate in a defined benefit retirement plan. The plan is noncontributory and includes eligible District employees. Benefits are based on salary and years of service. As of January 1, 2007, AgriBank and all affiliated participating Associations closed participation in their defined benefit pension plan and offered a defined contribution retirement plan to all employees hired subsequent to the closing. Certain District employers also participate in a non-qualified retirement plan. This plan is a benefit restoration plan which provides retirement benefits above the Internal Revenue Service compensation limit to certain highly compensated eligible employees. Additionally, District employers provide certain health insurance benefits to eligible retired employees in the District. The current measurement date is December 31 for the defined benefit and other post-employment benefit plans.

Obligations and Funded Status

The funded status of the District's post-employment benefit plans follows (in thousands):

	Pension Benefits			Other Benefits		
As of December 31	**2012**	2011	2010	**2012**	2011	2010
Change in benefit obligation						
Benefit obligation at beginning of year	**$951,377**	$849,537	$758,938	**$30,618**	$30,686	$28,926
Service cost	**26,032**	24,089	21,383	**559**	650	615
Interest cost	**46,044**	44,174	42,818	**1,465**	1,588	1,623
Plan amendments	**140**	--	--	**--**	(221)	--
Actuarial loss (gain)	**129,370**	75,624	57,534	**2,294**	(546)	1,052
Benefits paid	**(46,841)**	(42,047)	(31,136)	**(1,493)**	(1,539)	(1,530)
Benefit obligation at end of year	**$1,106,122**	$951,377	$849,537	**$33,443**	$30,618	$30,686
Change in plan assets						
Fair value of plan assets at beginning of year	**$557,600**	$573,038	$519,102	**$ --**	$ --	$ --
Actual return on plan assets	**76,926**	(1,824)	59,257	**--**	--	--
Employer contributions	**52,377**	28,433	25,815	**1,493**	1,539	1,530
Benefits, premiums, and expenses paid	**(46,841)**	(42,047)	(31,136)	**(1,493)**	(1,539)	(1,530)
Fair value of plan assets at end of year	**$640,062**	$557,600	$573,038	**$ --**	$ --	$ --
Funded status	**$(466,060)**	$(393,777)	$(276,499)	**$(33,443)**	$(30,618)	$(30,686)

	Pension Benefits			Other Benefits		
As of December 31	**2012**	2011	2010	**2012**	2011	2010
Amounts recognized in the Statement of Condition consist of:						
Pension asset	**$ --**	$ --	$ --	**$ --**	$ --	$ --
Pension liabilities	**466,060**	393,777	276,499	**33,443**	30,618	30,686
Net amount recognized	**$(466,060)**	$(393,777)	$(276,499)	**$(33,443)**	$(30,618)	$(30,686)
Amounts recognized in accumulated other comprehensive income consist of:						
Net loss (gain)	**$531,512**	$463,262	$365,129	**($2,752)**	($5,476)	($4,819)
Prior service credit	**(7,059)**	(8,318)	(9,373)	**(2,704)**	(3,397)	(3,800)
Total recognized in other comprehensive income	**$524,453**	$454,944	$355,756	**$(5,456)**	$(8,873)	$(8,619)
Weighted-average assumptions used to determine benefit obligations						
Discount rate	**4.15%**	4.95%	5.35%	**4.15%**	4.95%	5.35%
Expected return on plan assets	**8.00%**	8.00%	8.25%	**n/a**	n/a	n/a
Rate of compensation increase	**4.50%**	4.50%	4.50%	**n/a**	n/a	n/a

The pension benefits funding status reflects the status based on the projected benefit obligation, which is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation, which is the actuarial present value of benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation, exceeds the pension plan assets. The accumulated benefit obligation for the pension plan was $925.7 million, $801.6 million, and $724.1 million at December 31, 2012, 2011, and 2010, respectively.

Components of Net Periodic Benefit Cost
District net periodic post-employment benefit costs included the following components (in thousands):

For the year ended December 31	Pension Benefits			Other Benefits		
	2012	2011	2010	**2012**	2011	2010
Net periodic benefit cost						
Service cost	**$26,032**	$24,089	$21,383	**$559**	$650	$615
Interest cost	**46,044**	44,174	42,818	**1,465**	1,588	1,623
Expected return on plan assets	**(47,177)**	(47,718)	(45,994)	**--**	--	--
Amortization of prior service cost	**(1,119)**	(1,056)	(1,036)	**(695)**	(624)	(624)
Recognized net actuarial loss (gain)	**31,370**	27,033	21,548	**(222)**	(197)	(135)
Net periodic benefit cost	**$55,150**	$46,522	$38,719	**$1,107**	$1,417	$1,479
Other changes in plan assets and benefit obligations recognized in other comprehensive income						
Net loss (gain)	**$99,621**	$125,164	$44,272	**$2,500**	$(854)	$1,191
Prior service credit on plan amendment	**140**	--	--	**--**	(221)	--
Amortization of prior service benefit	**1,119**	1,056	1,036	**695**	624	624
Amortization of net (gain) loss	**(31,370)**	(27,033)	(21,548)	**222**	197	135
Total recognized in other comprehensive income	**$69,510**	$99,187	$23,760	**$3,417**	$(254)	$1,950
Total recognized in net periodic benefit cost and other comprehensive income	**$124,660**	$145,709	$62,479	**$4,524**	$1,163	$3,429
Weighted-average assumptions used to determine net costs						
Discount rate	**4.95%**	5.35%	5.80%	**4.95%**	5.35%	5.80%
Expected return on plan assets	**8.00%**	8.25%	8.25%	**n/a**	n/a	n/a
Rate of compensation increase	**4.50%**	4.50%	4.50%	**n/a**	n/a	n/a

The estimated net loss and prior service credit for the Pension Benefit plans that will be amortized from District accumulated other comprehensive income into net periodic benefit cost over the next year is an expense of $42.1 million. The estimated net gain and prior service credit for the Other Benefits plan that will be amortized from District accumulated other comprehensive income into net periodic benefit cost over the next year is income of $695 thousand.

Future Cash Flows
The amount of total District employer contributions expected to be paid into the plans during 2013 is $58.7 million for pension benefits and $1.8 million for other post-employment benefits.

The following benefit payments are expected to be paid by the District plans and reflect expected future service, as appropriate (in thousands):

As of December 31, 2012	Pension Benefits	Other Benefits
Year:		
2013	**$46,030**	**$1,757**
2014	**51,890**	**1,858**
2015	**57,670**	**1,950**
2016	**61,030**	**2,029**
2017	**67,090**	**2,088**
2018 to 2022	**396,820**	**11,008**

Assumed Health Care Cost Trend Rates

For measurement purposes, a 7.5% rate of increase in the per capita cost of covered health care benefits is assumed for 2013. The rate is assumed to decrease gradually to 5.0% by the year 2018 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for the District (in thousands):

As of December 31, 2012	1% Increase	1% Decrease
Effect on total of service and interest cost components	$22	($20)
Effect on accumulated postretirement benefit obligation	526	(476)

Plan Assets

The funding objective of the 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. The Trust Committee 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, fixed income, and real estate 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. 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.

The expected long-term rate of return assumption is determined by the Coordinating Committee with input from the Trust Committee. Historical return information is used to establish a best-estimate range for each asset class in which the plans are invested. The most appropriate rate is selected from the best-estimate range, taking into consideration the duration of plan benefit liabilities and Coordinating Committee investment policies.

The fair values of the District's pension plan assets by asset category are as follows (in thousands):

	Fair Value Measurements as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	**$ 10,208**	**$ --**	**$ --**	**$ 10,208**
Mutual funds:				
International funds	**112,222**	**--**	**--**	**112,222**
Bond funds	**--**	**104,915**	**--**	**104,915**
Real estate equity funds	**--**	**29,107**	**--**	**29,107**
Hedged equity funds	**--**	**--**	**14,087**	**14,087**
Investment insurance contracts	**--**	**--**	**7,814**	**7,814**
Trust Funds:				
Domestic funds	**--**	**268,871**	**--**	**268,871**
Bond funds	**--**	**52,047**	**--**	**52,047**
Limited partnerships	**--**	**--**	**40,791**	**40,791**
Total	**$ 122,430**	**$ 454,940**	**$ 62,692**	**$ 640,062**

	Fair Value Measurements using Level 3			
	Hedged Equity Funds	Investment Insurance Contracts	Limited Partnerships	Total
Beginning balance	**$ 13,796**	**$ 8,369**	**$ 37,973**	**$ 60,138**
Actual return on plan assets:				
Still held at the reporting date	**291**	**210**	**2,818**	**3,319**
Sales	**--**	**(765)**	**--**	**(765)**
Transfers in (out) of Level 3	**--**	**--**	**--**	**--**
Ending balance	**$ 14,087**	**$ 7,814**	**$ 40,791**	**$ 62,692**

	Fair Value Measurements as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$22,650	$ --	$ --	$22,650
Mutual funds:				
International funds	84,325	--	--	84,325
Bond funds	--	79,765	--	79,765
Hedged equity funds	--	--	13,796	13,796
Investment insurance contracts	--	--	8,369	8,369
Trust Funds:				
Domestic funds	--	230,358	--	230,358
Bond funds	--	80,364	--	80,364
Limited partnerships	--	--	37,973	37,973
Total	$106,975	$390,487	$60,138	$557,600

	Fair Value Measurements using Level 3			
	Hedged Equity Funds	Investment Insurance Contracts	Limited Partnerships	Total
Beginning balance	$13,552	$9,000	$39,661	$62,213
Actual return on plan assets:				
Still held at the reporting date	244	225	(1,688)	(1,219)
Purchases	--	2	--	2
Sales	--	(858)	--	(858)
Transfers in (out) of Level 3	--	--	--	--
Ending balance	$13,796	$8,369	$37,973	$60,138

	Fair Value Measurements as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$6,453	$ --	$ --	$6,453
Mutual funds:				
Domestic funds	--	105,972	--	105,972
International funds	--	50,178	--	50,178
Bond funds	--	79,789	--	79,789
Hedged equity funds	--	--	13,552	13,552
Investment insurance contracts	--	--	9,000	9,000
Trust Funds:				
Domestic funds	--	140,225	--	140,225
International funds	--	49,298	--	49,298
Bond funds	--	78,910	--	78,910
Limited partnerships	--	--	39,661	39,661
Total	$6,453	$504,372	$62,213	$573,038

	Fair Value Measurements using Level 3			
	Hedged Equity Funds	Investment Insurance Contracts	Limited Partnerships	Total
Beginning balance	$13,132	$9,618	$36,943	$59,693
Actual return on plan assets:				
Still held at the reporting date	420	312	2,718	3,450
Sales	--	(930)	--	(930)
Transfers in (out) of Level 3	--	--	--	--
Ending balance	$13,552	$9,000	$39,661	$62,213

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, for the case of international funds, 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 that 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. Refer to Note 12 for a complete description of Fair Value Measurements.

NOTE 10: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2012 involved more than a normal risk of collectability.

The following table represents information on loans and leases to related parties (in thousands):

	2012	2011	2010
As of December 31:			
Total related party loans and leases	**$24,499**	$18,683	$18,716
For the year ended December 31:			
Advances to related parties	**$59,102**	$43,965	$29,546
Repayments by related parties	**43,946**	43,115	32,594

The composition of related parties can be different each year end primarily due to changes in the make-up of our Board of Directors. Advances and repayments to related parties at the end of each year are included in the preceding chart.

We purchase various services from AgriBank including financial and retail systems, support, and reporting, technology services, insurance services, and internal audit services. The total cost of services we purchased from AgriBank was $523 thousand, $515 thousand, and $498 thousand in 2012, 2011, and 2010, respectively. We purchase benefit, human resource information systems, payroll, and workforce management services from Foundations. Foundations was operated as a part of AgriBank prior to January 1, 2012 when it formed a System service corporation. The System entities using Foundations' services contributed an investment into the service corporation in January 2012. Our investment was $14 thousand at December 31, 2012. The total cost of services purchased from Foundations was $66 thousand in 2012.

NOTE 11: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Commercial letters of credit are agreements to pay a beneficiary under specific conditions. At December 31, 2012, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $247.5 million.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

NOTE 12: FAIR VALUE MEASUREMENTS

The FASB guidance on “Fair Value Measurement” defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

Non-Recurring Basis

We do not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2012, 2011, or 2010. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis follows (in thousands):

As of December 31, 2012	Fair Value Measurement Using				Total Gains
	Level 1	Level 2	Level 3	Total Fair Value	(Losses)
Loans	**$ --**	**$1**	**$ --**	**$1**	**$3,000**
Other property owned	**--**	**--**	**--**	**--**	**10**

As of December 31, 2011	Fair Value Measurement Using				Total Gains
	Level 1	Level 2	Level 3	Total Fair Value	(Losses)
Loans	$ --	$2,567	$975	$3,542	$402
Other property owned	--	--	12	12	9

As of December 31, 2010	Fair Value Measurement Using				Total Gains
	Level 1	Level 2	Level 3	Total Fair Value	(Losses)
Loans	$ --	$1,550	$1,895	$3,445	($970)
Other property owned	--	--	--	--	(4)

Valuation Techniques

Loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. We did not hold any other property owned at December 31, 2012.

The fair value measurement would fall under level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under level 3 of the hierarchy if the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters.

NOTE 13: FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- judgments regarding future expected losses,
- current economic conditions,
- risk characteristics of various financial instruments,
- credit risk, and
- other factors.

These estimates involve uncertainties and matters of judgment and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Notes 2 and 4, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, for which it is practical to estimate that value, follows:

Net loans: The estimate of the fair value of loan assets is determined by discounting the expected future cash flows using current interest rates. Current interest rates are estimated based on similar loans made or loans repriced to borrowers with similar credit risk. This methodology is used because no active market exists for the vast majority of these loans. Since the discount rates are based upon internal pricing mechanisms and other estimates, we cannot determine whether the fair values presented would equal the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of System borrowers, could render our portfolio unmarketable outside the System.

We segregate the loan portfolio into pools of loans with homogenous characteristics for purposes of determining fair value of loans not individually impaired. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

For fair value of loans individually impaired, we assume collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Note payable to AgriBank: Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

Commitments to extend credit and letters of credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

The estimated fair value of our financial instruments is as follows (in thousands):

	2012		2011		2010	
As of December 31	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Net loans	**$706,371**	**$718,872**	$714,946	$732,384	$676,528	$689,529
Financial liabilities:						
Note payable to AgriBank	**$578,680**	**$588,429**	$608,258	$619,717	$580,789	$588,013
Unrecognized financial instruments:						
Commitments to extend credit and letters of credit		**($309)**		($312)		($278)

NOTE 14: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly consolidated results of operations for the year ended December 31 follows (in thousands):

2012	First	Second	Third	Fourth	Total
Net interest income	**$5,178**	**$5,755**	**$6,587**	**$6,139**	**$23,659**
(Reversal of) provision for loan losses	**(1,813)**	**--**	**105**	**(1,781)**	**(3,489)**
Patronage income	**510**	**587**	**696**	**1,112**	**2,905**
Other expense, net	**2,201**	**1,318**	**2,236**	**1,925**	**7,680**
Provision for income taxes	**160**	**312**	**536**	**565**	**1,573**
Net income	**$5,140**	**$4,712**	**$4,406**	**$6,542**	**$20,800**

2011	First	Second	Third	Fourth	Total
Net interest income	$5,278	$5,680	$6,756	$5,875	$23,589
(Reversal of) provision for loan losses	(77)	(1,280)	2,117	(480)	280
Patronage income	510	509	582	1,132	2,733
Other expense, net	2,000	2,003	2,072	2,173	8,248
Provision for (benefit from) income taxes	133	669	(141)	468	1,129
Net income	$3,732	$4,797	$3,290	$4,846	$16,665

2010	First	Second	Third	Fourth	Total
Net interest income	$4,490	$4,819	$5,939	$5,124	$20,372
(Reversal of) provision for loan losses	(46)	580	(428)	1,213	1,319
Patronage income	518	485	550	1,712	3,265
Other expense, net	1,306	1,851	2,069	1,872	7,098
Provision for (benefit from) income taxes	31	30	117	(307)	(129)
Net income	$3,717	$2,843	$4,731	$4,058	$15,349

NOTE 15: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 12, 2013, which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our 2012 Consolidated Financial Statements or disclosures in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Farm Credit Midsouth, ACA

(Unaudited)

Description of Business

General information regarding the business is discussed in Note 1 of this Annual Report.

The description of significant business developments, if any, is discussed in the “Management's Discussion and Analysis" portion of this Annual Report.

Description of Property

The following table sets forth certain information regarding our properties:

Location	Description	Usage
Jonesboro	Owned	Headquarters/Branch
Barton	Owned	Branch
Corning	Owned	Branch
Osceola	Owned	Branch
Paragould	Owned	Branch
Marion	Owned	Branch
Wynne	Owned	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Note 11 of this Annual Report. We were not subject to any enforcement actions at December 31, 2012.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 7 of this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 6, 7, 8, 9, 11, and 13 of this Annual Report.

Selected Financial Data

The "Consolidated Five-Year Summary of Selected Financial Data” is presented at the beginning of this Annual Report.

Management’s Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the "Management's Discussion and Analysis” portion of this Annual Report.

Board of Directors

Information regarding directors who served as of December 31, 2012, including business experience in the last five years and any other business interest where a director serves on the board of directors or as a senior officer follows:

Carl A. Loewer, Chairperson of the Board, is a self-employed grain and livestock farmer and is also employed as a seed and parts dealer. He is on the Board of Directors of the Cross County Farm Bureau and the Cross County Library. He is also a director on the AgriBank District Farm Credit Council Board. He was elected to his current term on the board in February 2010 which expired in February 2013. He was reelected to the board of directors in February 2013 to a term that expires in February 2017.

Fred L. Cathcart is a grain farmer. He also owns a business, Valley View Agri, Inc., which sells and installs grain storage equipment. Fred also owns K&D Agri, a company which sells grain bins in the southern United States, he owns and manages Valley View Bearing, a company which sells industrial parts in Arkansas, and is the President of Valley View Group, a holding company. He was elected to his current term on the board in February 2012 which expires in February 2016.

Marion D. Fletcher, Outside Director, is the national treasurer of the National Future Farmers of America (FFA) and the National FFA Foundation, Inc. both in Indianapolis, IN. He also serves as a Director of the Garland County Farm Bureau in Hot Springs, AR. He was appointed to his current term on the board in November 2012 which expires in November 2016.

Matt Knight, Outside Director, Board and Audit Committee financial expert, is a certified public accountant and is a partner with a local public accounting firm. He was appointed to his current term on the board in July 2011 which expires in July 2014.

Donald Norwood is a self-employed grain farmer. He is also on the Board of Directors of the Greene County Farm Bureau in Paragould, AR. He was elected to his current term on the board in February 2012 which expires in February 2015.

Jane Pirani, Vice Chairperson of the Board, is a self-employed cotton and grain farmer. She was elected to her current term on the board in February 2011 which expires in February 2015.

Brian (Chris) Roberts is a self-employed grain farmer. He was elected to his current term on the board in February 2011 which expires in February 2015.

Lowry E. Robinson is a self-employed grain and cotton farmer. He is on the Board of Directors of the Mississippi County Conservation District and also serves on the Mississippi County Farm Bureau Board, both in Osceola, AR. He is also on the Staplecotton Cooperative Board and Congressman Crawford's Ag Advisory Board. He was elected to his current term on the board in February 2010 which expired in February 2013. He did not seek reelection in February 2013.

Gary Sitzer is a self-employed rice and soybean farmer. He is President of Sitzer Farms, Inc. He also serves on the Poinsett County Farm Bureau Board in Harrisburg, AR, the Arkansas Soybean Association Board, the St. Bernard's Regional Medical Center Advisory Board, the Arkansas Soybean Research and Promotion Board, the Poinsett County Emergency Food and Shelter Board, and is on Congressman Crawford's Ag Advisory Board. He was elected to his current term on the board in February 2010 which expired in February 2013. He was reelected to the board of directors in February 2013 to a term that expires in February 2016.

Keith Thomas is a self-employed grain farmer. He is also the President of Keith Thomas Farms of Cherry Valley, Inc. He was elected to his current term on the board in February 2012 which expires in February 2016.

Jerry D. Turner is a self-employed grain farmer. He also serves on the Clay County Electric Cooperative Board and Clay County Regional Water Board. He was elected to his current term on the board in February 2010 which expired in February 2013. He did not seek reelection in February 2013.

Leslie E. Turner is a self-employed grain and cotton farmer. He serves on the Board of Directors of the Phillips County Farm Bureau and Service Gin. In addition, he is the Secretary/Treasurer for Barton Agri, Inc. in Barton, AR, a cooperative style company selling fertilizer. He is also the Fire Chief of Barton-Lexa Rural Fire Company and is Treasurer of Barton Baptist Church. He was elected to his current term on the board in February 2011 which expires in February 2014.

Mark Waldrip is a seed dealer. He serves on the Lee County Farm Bureau Board, the University of Arkansas Agriculture Development Council Board, and trustee for the University of Arkansas system. He is also the owner-manager of Armor Seeds, LLC and East Arkansas Seeds, Moro, AR. He was elected to his current term on the board in February 2011 which expires in February 2014.

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. For 2012, the Board of Directors has adopted a rate of $500 per day and a per diem rate of $100 per conference call. Board members will also receive a $3,500 annual retainer fee except for the board chairperson who receives a $4,500 annual retainer fee and the board vice chairperson who receives a $4,000 annual retainer fee. The retainer fee is equally paid at the end of each quarter.

Information regarding compensation for each director who served during 2012 follows:

	Number of Days Served		Compensation Paid for Service on a Board Committee		
	Board Meetings	Other Official Activities		Name of Committee	Total Compensation Paid in 2012
Carl A. Loewer	10.0	21.0	$500	Executive Committee	$21,000
Fred L. Cathcart	7.0	5.0			11,000
Johnny Ray Distretti*	2.0	0.0			1,000
Marion D. Fletcher	9.0	9.0			12,500
Matt Knight	10.0	9.0	600	Audit Committee	12,600
Donald Norwood	9.0	9.0	250	Scholarship Committee	12,250
Jane Pirani	9.0	8.0	500	Executive Committee	13,500
Brian (Chris) Roberts	10.0	29.0	700	Audit Committee	22,200
Lowry E. Robinson	9.0	8.0	600	Audit Committee	11,600
Gary Sitzer	10.0	10.0	600	Audit Committee	13,100
Keith Thomas	10.0	11.0			14,000
Jerry D. Turner	8.0	6.0			10,500
Leslie E. Turner	10.0	9.0	500	Executive Committee	13,000
Mark Waldrip	6.0	1.0	100	Scholarship Committee	6,600
Total	119.0	135.0	$4,350		$174,850

*Resigned February 2012

Senior Officers

The senior officers (and the date each began his/her current position) include:

James McJunkins, President and Chief Executive Officer (March 2012)
Shari J. Wilson, Senior Vice President, Chief Financial Officer (September 2008)
Davy Crockett, Senior Vice President, Chief Credit Officer (July 2005)
Randy Kingston, Senior Vice President, Field Operations (March 2012)

James McJunkins became Chief Operating Officer on January 1, 2012 and was promoted to Chief Executive Officer on March 1, 2012. Previously James McJunkins was the Senior Vice President of Field Operations. Prior to Shari J. Wilson beginning her employment with us in 2008, her business experience was as an independent CPA for a local firm providing audit, tax, and bookkeeping services. Randy Kingston was promoted to Senior Vice President of Field Operations in March 2012 and was previously the Jonesboro Branch Manager.

In addition to serving as a senior officer, Randy Kingston serves on the Advisory Board of the Craighead County 4H.

A summary of compensation earned by senior officers/highly compensated individuals follows (in thousands):

Name of Individual	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
James McJunkins, CEO*	**2012**	**$181**	**$108**	**$1**	**$ --**	**$290**
Gary N. Kinder, CEO**	**2012**	**38**	**--**	**1**	**138**	**177**
Gary N. Kinder, CEO	2011	232	117	6	--	355
Gary N. Kinder, CEO	2010	221	133	5	--	359
Aggregate Number of Senior Officers/Highly Compensated Individuals, excluding CEO						
Five	**2012**	**$538**	**$187**	**$10**	**$76**	**$811**
Four	2011	510	145	6	--	661
Seven	2010	812	312	15	--	1,139

*Became CEO effective March 1, 2012. Compensation shown is for the entire year of 2012.
**Retired effective February 29, 2012. Compensation shown is through February 29, 2012.

The amount included in “Other” in the preceding table represents retirement awards.

Members may request information on the compensation paid during 2012 to the individuals included in the preceding table. In accordance with the FCA Regulations, an advisory vote on CEO and/or senior officer compensation is required when five percent of the voting stockholders petition for such vote. Although the advisory votes are non-binding, our Board of Directors will take into consideration the outcome of the vote when making future CEO and senior officer compensation decisions.

Senior officer incentives are paid annually based on performance criteria established by our Board of Directors. The criteria include net earnings, net operating rate, association risk rating, personal objectives, and performance ratings. We calculate the incentives after the end of the plan year (the plan year is the calendar year). We pay out the incentives within 90 days of year end.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 10 of this Annual Report.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at 3000 Prosperity Drive, Jonesboro, Arkansas 72404, (870) 932-2288 or through our website at www.farmcreditmidsouth.com.

The total directors' travel, subsistence, and other related expenses were $65 thousand, $66 thousand, and $82 thousand in 2012, 2011, and 2010, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2013 or at any time during 2012.

Member Privacy

Farm Credit Administration Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our members not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2012 were $23 thousand. The fees paid were for audit services.

Financial Statements

The "Report of Management", "Report of Audit Committee", "Independent Auditor's Report", "Consolidated Financial Statements", and "Notes to Consolidated Financial Statements" are presented prior to this portion of the Annual Report.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

Equal Employment Opportunity

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, color, religion, national origin, sex, age, disability, veteran status, genetic information, sexual orientation, creed, marital status, status with regard to public assistance, membership or activity involving a local human rights commission, or any other characteristic protected by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

FUNDS HELD PROGRAM

Farm Credit Midsouth, ACA

Farm Credit Midsouth, ACA (the Association) offers a Funds Held Program (“Program”) that provides for Borrowers to make uninsured advance payments on designated loans for the purpose of paying future maturities or other related charges.

Objective

The Association offers the Funds Held Program for the benefit and convenience of Borrowers who desire to make advance payments.

The following terms and conditions apply to Program accounts in connection with loans from the Association, subject to any rights that the Association or Borrower may have as specified in loan documents governing designated loans.

Handling Advance Payments

- Advance payments received on a loan participating in the Program before the loan has been billed will normally be placed in the Program account (“Account”) as of the date received, to be applied against the next installment or other related charges on the installment due date. This is subject to any rights that the Association may have to apply such payments in a different manner as specified in the loan documents governing designated loans.
- Advance payments received on a loan participating in the Program after the loan has been billed will be directly applied to the installment due on the loan or other related charges and will not earn interest.
- Funds received in excess of the installment amount or other related charges will be placed in the Account.
- If a special prepayment of principal is desired, Borrowers must so specify at the time funds are paid in advance to the Association.
- When an installment becomes due, any accrued interest in the Account and other funds in the Account for the loan will be automatically applied toward payment of the installment or related charges on the due date. If the balance in the Account is not adequate to pay the installment or related charges in full, Borrowers are expected to pay the difference by the installment due date. Any excess funds will remain in the Account.

Even when no installment or related charge is due, the Association may, at its option, apply funds from the Account without notice to Borrower as follows:

- **Protective Advances**. If the Borrower fails to pay when due other items as required pursuant to the mortgage, deed of trust, promissory note or any other loan documents, the Association may apply funds in the Account to pay them.
- **Account Ceiling.** If the Account balance exceeds the unpaid balance of the loan, the Association may apply the funds in the Account to repay the entire unpaid balance and will return any excess funds. The Association allows up to two full annual installments (principal and interest) to be placed in the Account on each individual loan.
- **Transfer of Security**. If the Borrowers sell, assign, or transfer any interest in the underlying collateral, the Association may apply the funds in the Account against the remaining loan balance.
- **Deceased Borrowers**. If all Borrowers are deceased, the Association may apply the funds in the Account to the remaining loan balance.

The Association may pay interest on Account Balances. Interest on Account Balances (exclusive of funds applied directly to billed amounts) will normally accrue from the date of receipt of the funds until the date the funds are applied to the loan against an installment due or other related charges. The Association may change the interest rate from time to time, without written notification to the Borrower, and may provide for different interest rates for different categories of loans. Subject to change as aforesaid, currently the rate paid on the Account by the Association is equal to the rate being charged the Borrower on the individual loan.

Borrower Withdrawals from Accounts

The Association may permit Borrowers to withdraw funds from the Account according to the Association’s Program, including medical emergencies and natural disasters.

The Association permits one withdrawal by Borrowers from Accounts in any calendar year and the minimum amount that can be withdrawn is the entire Account balance. The request for the withdrawal must be in writing and state the reason(s) why withdrawal is being requested.

Liquidation

Account balances are not insured. In the event of the Association liquidation, all Borrowers having balances in these uninsured Accounts shall be notified according to FCA Regulations then in effect. Applicable regulations now provide that the notice shall instruct that the funds ceased earning interest when the receivership was instituted and will be applied against the outstanding indebtedness of any loans of the Borrowers unless, within 15 days notice, the Borrower provides direction to the Associations to apply the funds according to existing loan documents.

Termination

If the Association terminates the Program, Account balances will be applied to the loan balance, and any remaining excess funds will be refunded to the Borrower.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Farm Credit Midsouth, ACA

We have specific programs in place to serve the credit and related needs of young, beginning, and small farmers and ranchers (YBS) in our Local Service Area (LSA). The definitions of YBS as developed by the Farm Credit Administration (FCA) follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the date the loan was originally made.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

Demographics

Our LSA includes ten counties in eastern Arkansas and three counties in southern Missouri. We have used the 2007 United States Department of Agriculture (USDA) Ag-Census as our source of demographic data for the counties in our LSA. There are several differences in the methods by which the demographic and YBS Farmer data is presented. Young farmers are defined by the FCA as 35 years old or less. The USDA Ag-Census demographic stratification breaks at 34 years, which was used to compare to FCA's definition. Beginning farmers are defined by the FCA as having 10 years or less farming experience. There is no measurement matching this definition in the USDA Ag-Census; however, the census does identify farmers on their current farm less than 10 years. That statistic may include beginning farmers, but may also include experienced farmers who have recently changed farmsteads. As with the case with the Young information, the Beginning information in the USDA Ag-Census is not an exact comparison to the FCA definition, but will be utilized as the best comparison available. The FCA Small definition matches with the USDA Ag-Census delineation of farm entities with sales of less than $250,000. We are over chartered in Carter, Ripley, and Wayne counties in Missouri; therefore, we used 50% of the USDA Ag-Census numbers for comparison. Other data differences:

- The farmers experience is as of the date of the USDA Ag-Census, while our data is compiled as to the date the loan was made.
- Small farmers are by each individual farm entity from the USDA Ag-Census data, while our data is compiled as of the date of the loan and the total value of sales of closely related entities rather than individual entities.
- The USDA Ag-Census data reflects all farms whether they use debt or not (the census reflects only 49% of farms have debt).

While the statistical results of the USDA Ag-Census do not match the FCA definitions exactly and there are timing issues, they do provide a consistent source of measurement with which to assess association targets and goals.

The following data compares our YBS membership as of December 31, 2012 to the 2007 USDA Ag-Census data in our LSA:

Category	Number	Percent
2007 USDA Ag-Census Data:		
Number of Farmers 34 and Younger	452	8.9%
Number of Farmers on Current Farm Less than 10 Years	1,493	29.5%
Number of Farmers with Less than $250,000 Farm Sales	3,724	73.7%
Total Number of Farmers	5,054	
2012 Farm Credit Midsouth, ACA Data:		
Number of Members that are ≤ 35 years of age	480	30.0%
Number of Members that had been farming ≤ 10 years when their loan was originally made	530	33.1%
Number of Members that had < $250,000 in gross sales of agricultural products when their loan was originally made	612	38.3%
Total Number of Members in the LSA	1,600	

Mission Statement

The purpose of the YBS Farmers program is to educate and to develop, promote and market constructive credit and related services to young, beginning and small farmers and ranchers to sustain the future of agriculture and establish Farm Credit Midsouth, ACA as their lender of choice.

We are accomplishing this mission by:

- providing special loan programs and underwriting standards to meet the needs of YBS Farmers;
- offering either directly, or through external relationships, a number of financial services which will benefit the YBS Farmers in risk management;
- making full use of the Farm Service Agency guaranteed loan programs;
- establishing quantitative portfolio goals; and
- continuing to participate in numerous outreach programs which benefit YBS Farmers.

Quantitative Goals

Our Board of Directors desires to maintain a portfolio mix of young, beginning, and small farmers and ranchers. This mix will help ensure our continued viability in future years and promote agriculture in our LSA. The Board of Directors have decided to concentrate on new YBS business and have set five year goals to achieve the desired portfolio mix. The following are the goals and the 2012 results:

	% of Total Number of New		% of Total Volume of New	
Category	Goal	**2012 Results**	Goal	**2012 Results**
Young farmers	15%	**23.0%**	10%	**24.3%**
Beginning farmers	15%	**26.3%**	12%	**26.9%**
Small farmers	15%	**18.9%**	6%	**8.5%**

Qualitative Goals

Goal: Coordinate with governmental agencies and private parties to enhance credit services to YBS Farmers with use of guarantees or other risk reduction tools.

Status: We had 52 government guaranteed loans to YBS Farmers as of December 31, 2012 and made 16 new government guaranteed loans to YBS Farmers in 2012.

Goal: Provide educational and informational outreach programs for YBS or potential YBS Farmers.

Status: The following educational and informational outreach programs were supported that were available to YBS or potential YBS Farmers in 2012:

- Arkansas State University Agriculture Conference
- Women in Agriculture Conference
- Farm Management Meetings
- Arkansas Future Farmers of America (FFA) Convention
- Judd Hill Field Day
- Arkansas Farm Family of the Year
- Farm Safety programs
- Pizza Ranch for grade schools
- FFA/Ag Teacher Workshop
- Farm Bureau –Young Farmer and Rancher Conference
- ASU Student Leadership Conference
- FFA Publications
- FFA Officer/ Dinner Gift
- 4-H Foundation
- 4-H Officer/Dinner Gift
- Governor’s Cup
- Junior Livestock Auction – State Fair
- Arkansas State Fair – Sale of Champions

Goal: To provide financial and in-kind support to programs that fosters the development of young farmers.

Status: Twelve one thousand dollar college scholarships were awarded to students majoring in agriculture or business. Donations totaling $12,171 were given to various youth organizations, including local FFA chapters and 4-H programs.

Safety and Soundness of the Program

Our YBS program has established specific lending standards and limits to ensure safety and soundness of this program. The internal audit and review plan requires audit of the YBS program at least once every three years.

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