2011
Annual Report

Farm Credit Midsouth, ACA

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Farm Credit Midsouth, ACA

AgriBank, FCB's financial condition and results of operations materially affect members' investment in Farm Credit Midsouth, ACA. To request a free copy of the combined AgriBank, FCB 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 or contact AgriBank, FCB 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, FCB's website at www.agribank.com.

To request a free copy of our annual or quarterly reports contact us as stated above. The annual report is available on our website 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 year. The quarterly reports are available on our website 40 days after the end of each calendar quarter.

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Midsouth, ACA
(Dollars in thousands)

	2011	2010	2009	2008	2007
Statement of Condition Data					
Loans	**$719,395**	$681,410	$605,130	$559,177	$502,049
Allowance for loan losses	**4,449**	4,882	3,567	1,053	944
Net loans	**714,946**	676,528	601,563	558,124	501,105
Investment in AgriBank, FCB	**20,127**	18,555	18,267	13,270	13,270
Other property owned	**12**	--	1	10	18
Other assets	**24,737**	24,305	21,674	21,546	22,762
Total assets	**$759,822**	$719,388	$641,505	$592,950	$537,155
Obligations with maturities of one year or less	**$619,024**	$591,130	$524,534	$482,699	$433,708
Total liabilities	**619,024**	591,130	524,534	482,699	433,708
Protected members' equity	**5**	5	5	6	6
Capital stock and participation certificates	**2,070**	1,995	1,937	1,834	1,760
Unallocated surplus	**138,723**	126,258	115,029	108,411	101,681
Total members' equity	**140,798**	128,258	116,971	110,251	103,447
Total liabilities and members' equity	**$759,822**	$719,388	$641,505	$592,950	$537,155
Statement of Income Data					
Net interest income	**$23,589**	$20,372	$19,166	$16,428	$14,679
Provision for (reversal of) loan losses	**280**	1,319	2,501	(27)	--
Patronage income	**2,733**	3,265	2,246	1,405	1,564
Other expense, net	**8,248**	7,098	7,987	7,066	7,470
Provision for (reversal of) income taxes	**1,129**	(129)	205	38	35
Net income	**$16,665**	$15,349	$10,719	$10,756	$8,738
Key Financial Ratios					
Return on average assets	**2.1%**	2.3%	1.7%	1.8%	1.7%
Return on average members' equity	**12.4%**	12.5%	9.4%	10.0%	8.5%
Net interest income as a percentage of average earning assets	**3.2%**	3.1%	3.2%	2.8%	3.0%
Members' equity as a percentage of assets	**18.5%**	17.8%	18.2%	18.6%	19.3%
Net chargeoffs as a percentage of average loans	**0.1%**	--	--	--	--
Allowance for loan losses as a percentage of loans	**0.6%**	0.7%	0.6%	0.2%	0.2%
Permanent capital ratio	**14.2%**	14.1%	13.8%	14.7%	15.8%
Total surplus ratio	**14.0%**	13.9%	13.5%	14.4%	15.5%
Core surplus ratio	**14.0%**	13.9%	13.5%	14.4%	15.2%
Other					
Patronage distribution payable to members	**$4,200**	$4,100	$4,101	$4,000	$4,647

The patronage distribution to members accrued for the year ended December 31, 2011 was distributed in cash during the first quarter of 2012. The patronage distributions accrued for the years ended December 31, 2010, 2009, 2008, and 2007 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 time 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 also contain important information about our financial position and results of operations.

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", "could", "estimate", "may", "should", "will", "expect", or other variations on these terms are intended to identify such forward-looking statements. These statements are based on assumptions and analyses made in light of experience, historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties; many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, and economic conditions and developments in the United States and abroad,
- economic fluctuations in the agricultural, energy, financing, and leasing sectors,
- economic conditions and credit performance of our loan portfolio, portfolio growth and seasonal factors,
- changes in our estimates underlying the allowance for loan losses,
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income,
- changes in U.S. government support of the agricultural industry and the Farm Credit System (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, and
- actions taken by the Federal Reserve System in implementing monetary policy.

Loan Portfolio

Total loans were $719.4 million at December 31, 2011, an increase of $38.0 million from December 31, 2010. The components of total loans for the prior three years are outlined in the following table (in thousands):

As of December 31	**2011**	2010	2009
Real estate mortgage	**$342,882**	$301,162	$257,723
Production and intermediate term	**319,927**	317,440	287,883
Agribusiness	**41,658**	48,388	48,195
Finance leases	**2,732**	2,542	1,762
Other	**757**	239	428
Nonaccrual	**11,439**	11,639	9,139
Total loans	**$719,395**	$681,410	$605,130

The increase in total loans from December 31, 2010 resulted primarily from the mortgage loan portfolio increasing by $41.1 million due to new land sales and customer refinancing which occurred during 2011. The commercial loan portfolio ended the year slightly below 2010 levels primarily due to favorable crop production conditions.

We offer variable, fixed, indexed, and adjustable interest rate loan programs and fixed 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, FCB (AgriBank). The total participation interests in this pool were $31.2 million, $36.4 million, and $43.1 million at December 31, 2011, 2010, and 2009, respectively.

Portfolio Distribution

We are chartered to serve certain counties in Arkansas and Missouri. Approximately 96.3% of our total loan portfolio was in the state of Arkansas. Approximately 50.8% of our total portfolio resides in the counties of Craighead, Crittenden, Mississippi and Poinsett counties at December 31, 2011.

Commodities exceeding 5% of our portfolio included: cash grains (primarily rice and soy beans) 52.7%, landlords 22.0%, and cotton 14.4%. Additional commodity distribution is included in Note 3.

The commercial loan portfolio shows some seasonality. These loans are normally at their lowest levels during the winter months because of operating repayments following harvest. They then increase throughout the year as farmers borrow for operating and capital needs.

Agricultural and Economic Conditions

As the 2008 Farm Bill comes to an end, legislators are focused on creating the 2012 Farm Bill. With renewed emphasis on reducing the federal deficit, a Congressional Supercommittee identified approximately $23.0 billion in Farm Bill reductions during 2011 but failed to gain consensus. According to Alen Bjerga, some legislators believe these items could be the starting point for the 2012 Farm Bill creation. The Supercommittee recommendation would have cut $5.0 billion in farm subsidies currently made to farmers.[1]

Agricultural Secretary Vilsack stated that the challenge for legislators in creating the 2012 Farm Bill will be to "simplify existing programs; we need to reduce redundant provisions; and we need to put a premium on creating innovative solutions to address our current and future problems, also recognizing the importance of making targeted investments to keep agricultural productivity high and our rural communities vibrant."[2] Clearly the 2012 Farm Bill will have many challenges and reductions will most likely occur in multiple areas. The impact of the 2012 Bill could be significant for farmers in Northeast Arkansas.

United States Department of Agriculture's (USDA) 2011 net cash income forecast of $109.8 billion is up 18.9% over 2010 levels and up $34.2 billion over the ten-year average. Net farm income is forecast at $100.9 billion for 2011 up 28.0% from 2010 levels, primarily attributable to high crop prices. For the first time in history, both measures are projected to exceed the $100 billion mark. While net farm income shows a significant increase over 2010 levels, government payments are projected to be 14.4% lower than 2010. Expenses continue to increase and 2011 is projected to have a $34.0 billion dollar increase over 2010 levels, close to 12.0%.[3]

The 2011 Crop Year was generally good primarily due to favorable crop prices. According to the USDA Crop and Stocks Report issued January 12, 2012, yields on corn and cotton were down from 2010 levels primarily due to unseasonably hot and humid weather. Rice and soybeans increased yields over 2010; however, 2010 yields were at historic lows.

Declining land values following sustained periods of land value increases have historically created conditions of considerable risk for collateral-based lenders. Nominal and real (inflation-adjusted) agricultural land values have increased similar to other asset classes such as stocks and urban residential and commercial land, but agricultural land values escaped the valuation declines that other assets suffered during the recession. This is largely because the agricultural sector, particularly crop farming, remained profitable throughout the economic crisis period, and major agricultural lenders such as the Farm Credit System retained the capacity to continue lending for land purchases, unlike lenders to other industrial or consumer sectors.

In order to retain the capacity to lend in poor economic environments as well as good ones, our credit risk policies emphasize loan repayment capacity in addition to conservative assessments of collateral values that secure loans. Although Farm Credit Administration regulations allow real estate mortgage loans of up to 85% of appraised value, our underwriting standards generally limit lending to no more than 65% at origination. Due to very strong land values in much of our territory we have implemented risk management practices that incorporate loan-to-appraised-value thresholds below 65%. Furthermore, we impose a lending limit of fixed dollar amounts per acre based on the land's production capacity. While underwriting exceptions on loan-to-appraised-value are sometimes granted, in such cases they are often structured with additional principal payments in the early years to reduce the risk of lending at higher levels of appraised value.

Analysis of Risk

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

As of December 31	**2011**	2010	2009
Loans:			
Accruing restructured	**$13**	$ --	$208
Accruing loans 90 days or more past due	**--**	--	--
Nonaccrual	**11,439**	11,639	9,139
Total risk loans	**11,452**	11,639	9,347
Other property owned	**12**	--	1
Total risk assets	**$11,464**	$11,639	$9,348
Risk loans as a percentage of total loans	**1.6%**	1.7%	1.5%
Total delinquencies as a percentage of total loans	**0.4%**	0.1%	0.6%

Our risk assets have not changed significantly from December 31, 2010, and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

[1] Bjerga, Alen. "Agriculture Panels Turn to Farm Bill, as Supercommittee Fails." *Businessweek,* December 6, 2011. http://www.businessweek.com/news/2011-12-06/agriculture-panels-turn-to-farm-bill-as-supercommittee-fails.html, accessed February 2012.

[2] Tom Vilsack, *Remarks Delivered at the John Deere Des Moines Works on USDA priorities for the 2012 Farm Bill* Release No. 0458.11 (October 24, 2011), http://www.usda.gov/wps/portal/usda/usdahome?contentid=2011/10/0458.xml&contentidonly=true, accessed February 2012.

[3] "Farm Income and Costs: 2011 Farm Sector Income Forecast," November 29, 2011, on USDA website, http://www.ers.usda.gov/Briefing/FarmIncome/2011farmincomeforecast.htm, accessed February 2012.

The volume of nonaccrual loans remained at an acceptable level at December 31, 2011, and represented 1.6% of our total portfolio. At December 31, 2011, 78.9% of our nonaccrual loans were current.

Portfolio Credit Quality

The credit quality of our portfolio improved during 2011. Adversely classified assets decreased from 2.3% of the portfolio at December 31, 2010 to 1.8% of the portfolio at December 31, 2011. Adversely classified assets are assets 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 various government guarantee programs to reduce the risk of loss. At December 31, 2011, $2.6 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, portfolio quality, and current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

As of December 31	**2011**	2010	2009
Allowance as a percentage of:			
Loans	**0.6%**	0.7%	0.6%
Nonaccrual loans	**38.9%**	41.9%	39.0%
Total risk loans	**38.8%**	41.9%	38.2%
Net chargeoffs as a percentage			
of average loans	**0.1%**	--	--
Adverse assets to risk funds	**10.6%**	14.2%	8.8%

The decrease in our allowance for loan losses of $433 thousand was primarily due to good crop conditions and yield performances. Impaired loan chargeoffs recorded during 2011 also reduced the amount of our allowance for loan losses. In our opinion, the allowance for loan losses was reasonable in relation to the probable losses in the loan portfolio at December 31, 2011.

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

Results of Operations

The following table illustrates profitability information (in thousands):

For the year ended December 31	**2011**	2010	2009
Net income	**$16,665**	$15,349	$10,719
Return on average assets	**2.1%**	2.3%	1.7%
Return on average			
members' equity	**12.4%**	12.5%	9.4%

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):

Increase (decrease) in net income	**2011 vs. 2010**	2010 vs. 2009
Net interest income	**$3,217**	$1,206
Provision for loan losses	**1,039**	1,182
Patronage income	**(532)**	1,019
Non-interest income	**(781)**	698
Non-interest expense	**(369)**	191
Provision for income taxes	**(1,258)**	334
Total change in net income	**$1,316**	$4,630

Net Interest Income

Net interest income was $23.6 million for the year ended December 31, 2011. The following table quantifies changes in net interest income (in thousands):

Changes in net interest income due to:	**2011 vs. 2010**	2010 vs. 2009
Changes in volume	**$2,655**	$1,596
Changes in rates	**334**	(343)
Changes in nonaccrual income and other	**228**	(47)
Net change	**$3,217**	$1,206

Net interest income included income on nonaccrual loans that totaled $395 thousand, $42 thousand, and $79 thousand in 2011, 2010, and 2009, respectively. Nonaccrual income is recognized when:

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

Net interest margin (net interest income divided by average earning assets) was 3.2%, 3.1%, and 3.2% in 2011, 2010, and 2009, respectively. We expect margins to compress in the future as interest rates rise and competition increases.

Provision for Loan Losses

The decrease in provision for loan losses as compared to the prior year was primarily due to good crop conditions and yield performances. A similar provision for crop and yield conditions was not required in 2011.

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, $2.3 million, and $1.5 million in 2011, 2010, and 2009, 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 31 basis points, 42 basis points, and 30 basis points in 2011, 2010, and 2009, respectively.

We also received patronage income related to our sale of participation interests in certain real estate loans to AgriBank. We received patronage income in an amount that approximated the net earnings of those 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. We also 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 $756 thousand, $936 thousand, and $731 thousand in 2011, 2010, and 2009, respectively. In addition, in 2010, we received a $38 thousand share of the distribution from the Allocated Insurance Reserve Account (AIRA) related to the participations sold to AgriBank. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. No such distribution was received in 2011 or 2009.

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 $15 thousand, $13 thousand, and $9 thousand for 2011, 2010, and 2009, respectively.

Non-interest Income

The change in non-interest income is primarily due to the following:

The decrease in AIRA distribution is due to our share of distributions from AIRA of $672 thousand during the first quarter of 2010. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. There has been no distribution in 2011 or 2009.

We originated rural home loans for resale in the secondary market. We sold loans through the secondary market totaling $3.4 million, $4.6 million, and $5.5 million in 2011, 2010, and 2009, respectively. The fee income from this activity totaled $53 thousand, $72 thousand, and $57 thousand in 2011, 2010, and 2009, respectively.

Non-interest Expense

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 (in thousands):

For the year ended December 31	**2011**	2010	2009
Salaries and benefits	**$6,308**	$6,070	$5,683
Purchased and vendor services	**765**	767	766
Communications	**117**	98	99
Occupancy and equipment	**637**	736	592
Advertising and promotion	**233**	244	235
Examination	**261**	232	212
Farm Credit System insurance	**403**	299	1,105
Other	**736**	645	590
Total operating expenses	**$9,460**	$9,091	$9,282
Operating rate	**1.3%**	1.4%	1.6%

The operating expense increase was primarily related to increases in salaries and benefits and Farm Credit System insurance premiums.

Provision for (Reversal of) Income Taxes

We recorded tax expense of $1.1 million and $205 thousand for the years ended December 31, 2011 and 2009, respectively. We reversed tax expense of $129 thousand for 2010. Patronage distributions to members reduced our tax liability in 2011, 2010, and 2009. See Note 8 for additional discussion.

Funding and Liquidity

U.S. Fiscal Situation and Credit Rating Impact

The Farm Credit System is a government-sponsored enterprise that has benefited from broad access to domestic and global capital markets. This access has provided us with a dependable source of competitively priced debt which is critical for supporting our mission of providing credit to agriculture and rural America. The 2011 U.S. Congressional negotiations aimed at raising the government's debt ceiling and addressing long-term budget imbalances highlighted the risks to the Farm Credit System relating to the U.S. fiscal situation. These risks include the apparent implied link between the credit rating of the Farm Credit System and the U.S. government given the System's status as a government-sponsored enterprise.

Moody's Investors Service and Fitch confirmed the AAA rating of U.S. government bonds and financial institutions directly linked to the U.S. government, including debt issued by the Farm Credit System, following the raising of the statutory debt limit in August 2011. The rating outlook was revised to negative by Moody's and remained stable from Fitch. However, Standard and Poor's Rating Services lowered the U.S. government rating to AA+ in August 2011 with an outlook of negative, followed with a similar change for the Farm Credit System. In November 2011, Fitch changed its outlook of the U.S. and the Farm Credit System from "stable" to "negative." The impact of current and future downgrades may increase our borrowing costs and may limit Farm Credit System access to the capital markets, reducing flexibility to issue debt across the full spectrum of the yield curve. The downgrades have not had a significant impact on our borrowing costs and access to capital markets. The downgrades also did not impact AgriBank's standalone credit rating.

Funding

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 6. During 2011, our average balance was $632.9 million with an average interest rate of 2.0%. Our average balance during 2010 was $551.4 million with an average interest rate of 2.2% and during 2009 our average balance was $502.3 million with an average interest rate of 2.5%. 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 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, 2011, we had $214.4 million available under our line of credit. We generally apply excess cash to this line of credit.

Capital Adequacy

Total members' equity increased $12.5 million during 2011 primarily due to net income for the period and an increase in capital stock and participation certificates outstanding, partially offset by patronage distribution accruals.

Members' equity position information is as follows (in thousands):

As of December 31	**2011**	2010	2009
Members' equity	**$140,798**	$128,258	$116,971
Surplus as a percentage of members' equity	**98.5%**	98.4%	98.3%
Permanent capital ratio	**14.2%**	14.1%	13.8%
Total surplus ratio	**14.0%**	13.9%	13.5%
Core surplus ratio	**14.0%**	13.9%	13.5%

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. Our loan volume has begun to grow at a faster rate than we have historically experienced. As a result that may require us to retain more of our earnings for future growth.

At December 31, 2011, our permanent capital, total surplus, and core surplus ratios significantly exceeded the regulatory minimum requirements. See Note 7 for further discussions of these regulatory ratios.

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, 2011, 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.

Investments for Rural America Program

We participate in the Investments for Rural America program authorized during 2006 by the Farm Credit Administration 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 $465 thousand, $14 thousand, and $16 thousand of volume under this program at December 31, 2011, 2010, and 2009, respectively.

Relationship with AgriBank

Borrowings

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 match funding 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 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, 2011, 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% on growth that exceeded a targeted rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4%.

In addition, we are required to hold AgriBank stock equal to 8% of the quarter end balance of a pool of real estate loans sold to AgriBank.

At December 31, 2011, $15.7 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $4.4 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.

Beginning in 2009, 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:

- information systems,
- financial services,
- accounting and reporting services,
- human resource services, and
- retail product processing and support.

The total cost of services we purchased from AgriBank was $515 thousand, $498 thousand, and $476 thousand in 2011, 2010, and 2009, respectively.

We purchase benefit and payroll services from Farm Credit Foundations. Farm Credit Foundations had been operated as a part of AgriBank prior to January 1, 2012 when it formed a service corporation and thus is no longer operated as part of AgriBank. The Farm Credit System entities using Farm Credit Foundations as their payroll and benefits provider contributed an investment into the service corporation in January 2012. Our investment was $14 thousand.

Effect on Members’ Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially affect our members’ investment. To request a free copy of the AgriBank and the combined AgriBank, FCB 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 or 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 a free copy of our annual or quarterly reports contact us as stated above. The annual report is available on our website 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 year. The quarterly reports are available on our website 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 with certain other AgriBank District associations to facilitate the development and maintenance of certain technology systems essential to providing credit to our borrowers. The Insight Technology Unit 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) 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, 2011, 2010 and 2009. CoBank provides direct loan funds to associations in its chartered territory and also makes loans to cooperatives and other eligible borrowers.

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 in 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.

Carl A. Loewer
Chairperson of the Board
Farm Credit Midsouth, ACA

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

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

March 12, 2012

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, 2011, 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, 2011.

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

Members of the Audit Committee include: Matt Knight, Lowry E. Robinson and Brian (Chris) Roberts

March 12, 2012

pwc

Report of Independent Auditors

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

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

PricewaterhouseCoopers LLP

March 12, 2012

PricewaterhouseCoopers LLP, 225 South Sixth Street, Suite 1400, Minneapolis, MN 55402
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CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Midsouth, ACA

(Dollars in thousands)

As of December 31	**2011**	2010	2009
ASSETS			
Loans	**$719,395**	$681,410	$605,130
Allowance for loan losses	**4,449**	4,882	3,567
Net loans	**714,946**	676,528	601,563
Investment in AgriBank, FCB	**20,127**	18,555	18,267
Accrued interest receivable	**16,501**	15,158	13,319
Premises and equipment, net	**4,028**	3,643	3,655
Other property owned	**12**	--	1
Assets held for lease, net	**1,170**	1,426	1,515
Other assets	**3,038**	4,078	3,185
Total assets	**$759,822**	$719,388	$641,505
LIABILITIES			
Note payable to AgriBank, FCB	**$608,258**	$580,789	$513,458
Accrued interest payable	**3,157**	3,075	3,160
Net deferred income tax liability	**545**	123	375
Patronage distribution payable	**4,200**	4,100	4,101
Other liabilities	**2,864**	3,043	3,440
Total liabilities	**619,024**	591,130	524,534
Contingencies and commitments	**--**	--	--
MEMBERS' EQUITY			
Protected members' equity	**5**	5	5
Capital stock and participation certificates	**2,070**	1,995	1,937
Unallocated surplus	**138,723**	126,258	115,029
Total members' equity	**140,798**	128,258	116,971
Total liabilities and members' equity	**$759,822**	$719,388	$641,505

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Midsouth, ACA

(Dollars in thousands)

Year ended December 31	**2011**	2010	2009
Interest income	**$35,937**	$32,455	$31,607
Interest expense	**12,348**	12,083	12,441
Net interest income	**23,589**	20,372	19,166
Provision for loan losses	**280**	1,319	2,501
Net interest income after provision for loan losses	**23,309**	19,053	16,665
Non-interest income			
Patronage income	**2,733**	3,265	2,246
Financially related services income	**893**	881	838
Fee income	**130**	131	237
Allocated insurance reserve account distribution	**--**	672	--
Miscellaneous income, net	**189**	309	220
Total non-interest income	**3,945**	5,258	3,541
Non-interest expense			
Salaries and employee benefits	**6,308**	6,070	5,683
Other operating expense	**3,152**	3,021	3,599
Total non-interest expense	**9,460**	9,091	9,282
Income before income taxes	**17,794**	15,220	10,924
Provision for (reversal of) income taxes	**1,129**	(129)	205
Net income	**$16,665**	$15,349	$10,719

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Midsouth, ACA

(Dollars in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2008	$6	$1,834	$108,411	$110,251
Net income	--	--	10,719	10,719
Unallocated surplus designated for patronage distributions	--	--	(4,101)	(4,101)
Capital stock/participation certificates issued	--	231	--	231
Capital stock/participation certificates retired	(1)	(128)	--	(129)
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**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Farm Credit Midsouth, ACA
(Dollars in thousands)

Year ended December 31	**2011**	2010	2009
Cash flows from operating activities			
Net income	**$16,665**	$15,349	$10,719
Depreciation on premises and equipment	**247**	305	245
Loss on sale of premises and equipment	**--**	--	3
Depreciation on assets held for lease	**444**	475	392
Provision for loan losses	**280**	1,319	2,501
Stock patronage received from AgriBank, FCB	**(1,229)**	(834)	(363)
(Gain) loss on other property owned	**(9)**	4	--
Changes in operating assets and liabilities:			
Accrued interest receivable	**(1,346)**	(1,840)	1,118
Other assets	**1,040**	(893)	(898)
Accrued interest payable	**82**	(85)	(1,430)
Other liabilities	**243**	(649)	432
Net cash provided by operating activities	**16,417**	13,151	12,719
Cash flows from investing activities			
Increase in loans, net	**(38,597)**	(76,201)	(45,749)
(Purchases) redemptions of investment in AgriBank, FCB, net	**(343)**	546	(4,634)
Purchases of assets held for lease, net	**(188)**	(386)	(935)
Proceeds from sales of other property owned	**9**	16	9
Purchases of premises and equipment, net	**(632)**	(293)	(97)
Net cash used in investing activities	**(39,751)**	(76,318)	(51,406)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**27,469**	67,331	42,732
Patronage distributions	**(4,100)**	(4,121)	(4,000)
Capital stock and participation certificates retired, net	**(35)**	(43)	(45)
Net cash provided by financing activities	**23,334**	63,167	38,687
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$156**	$165	$199
Stock applied against loan principal	**46**	64	52
Interest transferred to loans	**3**	1	44
Loans transferred to other property owned	**12**	19	--
Patronage distributions payable to members	**4,200**	4,100	4,101
Supplemental information			
Interest paid	**$12,266**	$12,168	$13,871
Taxes paid	**231**	486	151

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

Association

Farm Credit Midsouth**,** ACA and its subsidiaries, Farm Credit Midsouth, FLCA and Farm Credit Midsouth**,** PCA are lending institutions of the Farm Credit 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, FCB (AgriBank) and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short-term and intermediate-term loans and provides lease financing options for agricultural production or operating purposes.

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.

Farm Credit System and District

Farm Credit System Lending Institutions: The Farm Credit 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, 2011, the Farm Credit System consisted of four Farm Credit Banks, one Agricultural Credit Bank, and 84 associations. One of the Farm Credit Banks and the Agricultural Credit Bank merged January 1, 2012. AgriBank and its affiliated associations are collectively referred to as the AgriBank Farm Credit District (the District). At December 31, 2011, 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 Farm Credit System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

Farm Credit System Regulator: The Farm Credit Administration (FCA) is authorized by Congress to regulate the Farm Credit 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.

Farm Credit Insurance Fund: 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 insure the timely payment of principal and interest on Farm Credit Systemwide debt obligations,
- to insure 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 Farm Credit System institutions and for the operating expenses of the Insurance Corporation. Each Farm Credit System bank has been 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 these same factors.

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 reporting 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 (the parent) and Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Mortgage loan terms range from 5 to 40 years at origination. Almost all commercial loans are made for agricultural production or operating purposes with original loan terms of 10 years or less.

Loans are carried at their principal amount outstanding. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Material fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. 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 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 chargeoffs. Nonaccrual loans may be returned to accrual status when:

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

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

Loans are charged off at the time they are determined to be uncollectible.

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 periodic evaluation of factors such as:

- loan loss history,
- portfolio quality and concentration, 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:

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

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. Loans that were not individually evaluated for impairment, or were not segregated according to risk characteristics, are segmented using the probability of default. The probability of default ratings are further segmented by loss given default ratings. The combination of the default probability and estimated loss given default assumptions are 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 as "Provision for loan losses" on the Consolidated Statements of Income, and recoveries and chargeoffs.

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 current operating results. Maintenance and repairs are included in operating expense 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 and is included in “Other property owned” on the Consolidated Statements of Condition. 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 and expenses 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 on 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. 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 the following post-employment benefit plans.

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. All employees hired after December 31, 2006, only participate in the defined contribution plan. 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. Employees hired prior to October 1, 2001, were on the final average pay formula. These employees were given a one-time option to convert to the cash balance formula or to remain on a final average pay formula. Between October 1, 2001 and December 31, 2006, all new benefits-eligible employees participated in 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. We pay the accrued patronage during the first quarter after each subsequent year.

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 the reporting entity’s 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 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 that 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 is not expected to have an impact on our financial condition or results of operations, but will result in additional disclosures.

In June 2011, the FASB issued guidance entitled "Presentation of Comprehensive Income". This standard 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. Each component of net income and each component of other comprehensive income, together with totals for comprehensive income and its two parts — net income and other comprehensive income, would need to be displayed under either alternative. The statement(s) would need to be presented with equal prominence as the other primary financial 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, this guidance is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The adoption of this guidance will have no impact on our financial condition or results of operations, but will result in changes to our financial statement presentation.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The new 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. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective for annual periods beginning after December 15, 2011. Early application is not permitted. The adoption of this guidance will not have a significant impact on our financial condition or results of operations, but will result in additional disclosures.

In April 2011, the FASB issued guidance entitled "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring". This 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 is not expected to have a significant impact on our financial condition or results of operations.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis and also calls for new disclosures. For non-public entities, the disclosures are effective for interim and annual reporting periods ending on or after December 15, 2011. The adoption of this guidance did not have an impact on our financial condition or results of operations, but resulted in additional disclosures in Note 3.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (in thousands):

	2011		2010		2009	
As of December 31	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$345,907**	**48.0%**	$303,642	44.6%	$258,744	42.7%
Production and intermediate term	**324,982**	**45.2%**	322,365	47.3%	291,025	48.1%
Agribusiness	**45,017**	**6.3%**	52,622	7.7%	53,171	8.8%
Finance leases	**2,732**	**0.4%**	2,542	0.4%	1,762	0.3%
Other	**757**	**0.1%**	239	0.0%	428	0.1%
Total	**$719,395**	**100.0%**	$681,410	100.0%	$605,130	100.0%

Participations

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

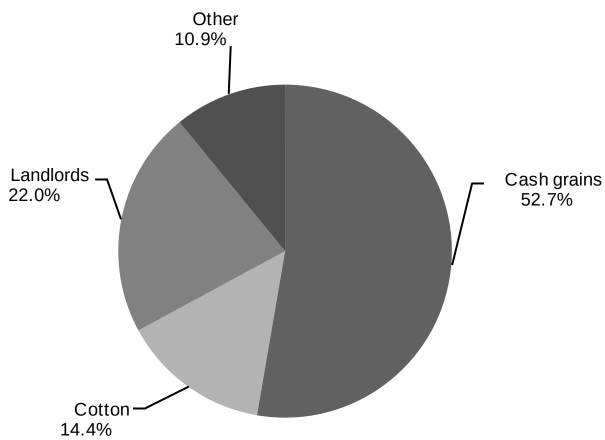
	AgriBank, FCB		Other Farm Credit Institutions		Total	
	Participations		Participations		Participations	
As of December 31, 2011	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**($28,413)**	**$1,863**	**($4,093)**	**$1,863**	**($32,506)**
Production and intermediate term	**--**	**(2,921)**	**1,634**	**(65)**	**1,634**	**(2,986)**
Agribusiness	**--**	**(25,125)**	**5,315**	**(3,318)**	**5,315**	**(28,443)**
Total	**$ --**	**($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.

Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities and within our chartered territory. At December 31, 2011, volume plus commitments to our ten largest borrowers totaled an amount equal to 76.7% of members' equity.

Our agricultural commodity concentrations at December 31, 2011, 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 96.3% of our total loan portfolio was in the state of Arkansas. Approximately 50.8% of our total loan portfolio was in Craighead, Crittenden, Mississippi, and Poinsett counties at December 31, 2011.

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities is 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.

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). Accruing volume includes accrued interest receivable.

As of December 31	2011	2010	2009
Nonaccrual loans:			
Current as to principal and interest	**$9,024**	$10,902	$6,249
Past due	**2,415**	737	2,890
Total nonaccrual loans	**11,439**	11,639	9,139
Accruing restructured loans	**13**	--	208
Accruing loans 90 days or more past due	**--**	--	--
Total risk loans	**$11,452**	$11,639	$9,347
Volume with specific reserves	**$6,503**	$6,813	$6,721
Volume without specific reserves	**4,949**	4,826	2,626
Total risk loans	**$11,452**	$11,639	$9,347
Total specific reserves	**$3,129**	$3,531	$2,561

For the year ended December 31	2011	2010	2009
Income on accrual risk loans	**$ --**	$20	$12
Income on nonaccrual loans	**395**	42	79
Total income on risk loans	**$395**	$62	$91
Average recorded investment	**$11,786**	$9,084	$4,246

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2011.

Risk assets by loan type (accruing volume includes accrued interest receivable) are as follows (in thousands):

As of December 31	2011	2010	2009
Nonaccrual loans:			
Real estate mortgage	**$3,026**	$2,481	$1,022
Production and intermediate term	**5,055**	4,924	3,142
Agribusiness	**3,358**	4,234	4,975
Total nonaccrual loans	**$11,439**	$11,639	$9,139
Accruing restructured loans:			
Production and intermediate term	**$13**	$ --	$208
Total accruing restructured loans	**$13**	$ --	$208
Total risk loans	**$11,452**	$11,639	$9,347
Other property owned	**12**	--	1
Total risk assets	**$11,464**	$11,639	$9,348

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

	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:					
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, or acquisition costs and may also reflect a previous direct write-down of the investment.

[2]Unpaid principal balance represents the contractual principal balance of the loan.

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

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type:

As of December 31, 2011	Acceptable	OAEM	Substandard/ Doubtful	Total
Real estate mortgage	96.9%	1.8%	1.3%	100.0%
Production and intermediate term	92.4%	6.0%	1.6%	100.0%
Agribusiness	92.6%	0.0%	7.4%	100.0%
Finance leases	100.0%	0.0%	0.0%	100.0%
Other	100.0%	0.0%	0.0%	100.0%
Total loans	94.6%	3.6%	1.8%	100.0%

The following table provides an age analysis of past due loans by loan type (accruing volume includes accrued interest receivable) (in thousands):

As of December 31, 2011	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	90 Days Past Due and Accruing
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**	**$735,896**	**$ --**

Troubled Debt Restructurings

A restructuring of a loan constitutes a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. When a restructured loan constitutes a troubled debt restructuring, these loans are included within our risk loans. All risk loans are analyzed within our allowance for loan losses. We record specific allowance to reduce the carrying amount of the formally restructured loan to the lower of book value or net realizable value of collateral.

We completed troubled debt restructurings of certain production and intermediate term loans during the year ended December 31, 2011. Our recorded investment in these loans prior to restructuring was $2.2 million. Our recorded investment in these loans after restructuring was $2.2 million. Pre-modification represents the recorded investment just prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

There were no troubled debt restructurings that occurred within the previous 12 months and for which there was a subsequent payment default during the year ended December 31, 2011.

Troubled debt restructurings outstanding at December 31, 2011 totaled $844 thousand, of which $831 thousand 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, 2011.

Allowance for Loan Losses

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

For the year ended December 31	**2011**	2010	2009
Balance at beginning of year	**$4,882**	$3,567	$1,053
Provision for loan losses	**280**	1,319	2,501
Loan recoveries	**--**	--	14
Loan chargeoffs	**(713)**	(4)	(1)
Balance at end of year	**$4,449**	$4,882	$3,567

The decrease in our allowance for loan losses was primarily due to good crop conditions and yield performances as well as chargeoffs recorded during 2011.

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

	Real estate mortgage	Production and intermediate term	Agribusiness	Finance leases	Other	Total
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 chargeoffs	**--**	**(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 for loans individually evaluated for impairment	**$3,026**	**$5,068**	**$3,358**	**$ --**	**$ --**	**$11,452**
Ending balance for loans collectively evaluated for impairment	**$350,928**	**$327,778**	**$42,244**	**$2,732**	**$762**	**$724,444**

NOTE 4: INVESTMENT IN AGRIBANK

At December 31, 2011, 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% on growth that exceeded a targeted rate.

At December 31, 2011, we were also required by AgriBank to maintain an investment equal to 8% 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 $20.1 million, $18.6 million, and $18.3 million at December 31, 2011, 2010, and 2009, respectively.

NOTE 5: PREMISES AND EQUIPMENT

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

As of December 31	**2011**	2010	2009
Land, buildings and improvements	**$4,936**	$4,937	$4,801
Furniture and equipment	**1,586**	1,026	935
Subtotal	**6,522**	5,963	5,736
Less: accumulated depreciation	**(2,494)**	(2,320)	(2,081)
Total	**$4,028**	$3,643	$3,655

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 General Financing Agreement and our assets serve as collateral. The total line of credit was $825.0 million and the outstanding principal under the line of credit was $608.3 million at December 31, 2011. The interest rate is adjusted monthly and was 2.0% at December 31, 2011. During 2011, our average balance was $632.9 million with an average interest rate of 2.0%. Our average balance during 2010 was $551.4 million with an average interest rate of 2.2% and during 2009 our average balance was $502.3 million with an average interest rate of 2.5%. The maturity date is April 30, 2012, for our note payable, at which time the note will be renegotiated.

The General Financing Agreement 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, 2011, 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, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of participation certificates at 2% or one thousand dollars 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 an association were to be unable to retire protected borrower equity at par value or stated value, the Farm Credit Insurance Fund 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%, a total surplus ratio of at least 7%, and a core surplus ratio of at least 3.5%. The calculation of these ratios in accordance with Farm Credit Administration Regulations is discussed as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2011, our ratio was 14.2%.
- 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, 2011, our ratio was 14.0%.
- 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, 2011, our ratio was 14.0%.

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, 2011, 2010, or 2009, 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, 2011. All shares and participation certificates were $5.00 par value.

As of December 31, 2011	Shares Outstanding
Class A common stock (protected)	**1,020**
Class B common stock (at-risk)	**2,353**
Class C common stock (at-risk)	**404,149**
Series 2 participation certificates (at -risk)	**7,606**

Under our bylaws, we are also authorized to issue Class D common stock, 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 the Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2011, 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 first 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, $4.1 million, and $4.1 million at December 31, 2011, 2010, and 2009, respectively. The patronage distributions were paid in cash during the first quarter of each subsequent year. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

The Farm Credit Administration 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 2012.

NOTE 8: INCOME TAXES

Provision for (Reversal of) Income Taxes

Our provision for (reversal of) income taxes follows (in thousands):

For the year ended December 31	2011	2010	2009
Current:			
Federal	**$585**	$99	$86
State	**122**	24	8
Total current	**707**	123	94
Deferred:			
Federal	**362**	(220)	92
State	**60**	(32)	19
Total deferred	**422**	(252)	111
Provision for (reversal of) income taxes	**$1,129**	($129)	$205
Effective tax rate	**6.3%**	(0.8%)	1.9%

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

For the year ended December 31	2011	2010	2009
Federal tax at statutory rate	**$6,050**	$5,250	$3,714
State tax, net	**125**	(3)	23
Patronage distributions	**(1,428)**	(1,394)	(1,285)
Effect of non-taxable entity	**(3,661)**	(3,883)	(2,249)
Other	**43**	(99)	2
Provision for (reversal of) income taxes	**$1,129**	($129)	$205

Deferred Income Taxes

Deferred tax assets and liabilities are composed of the following (in thousands):

As of December 31	**2011**	2010	2009
Allowance for loan losses	**$691**	$970	$441
Postretirement benefit accrual	**164**	163	159
Accrued incentive	**284**	324	212
Net operating loss carryforward	**--**	68	--
Leasing related, net	**(764)**	(557)	(178)
Accrued patronage income not received	**(221)**	(340)	(192)
AgriBank, FCB 2002 allocated stock	**(328)**	(328)	(328)
Accrued pension asset	**(389)**	(441)	(493)
Depreciation	**(14)**	(15)	(16)
Other assets	**32**	33	20
Net deferred tax liabilities	**($545)**	($123)	($375)
Gross deferred tax assets	**$1,171**	$1,558	$832
Gross deferred tax liabilities	**($1,716)**	($1,681)	($1,207)

A valuation reserve for the deferred tax assets was not necessary at December 31, 2011, 2010, or 2009.

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 $105.8 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.

At December 31, 2011, we had no uncertain income tax positions.

NOTE 9: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the Combined AgriBank, FCB and Affiliated Associations 2011 Annual Report.

Pension Plan: Certain employees participate in a District-wide multiemployer defined benefit retirement plan. This Plan is noncontributory and covers eligible District employees. Benefits are based on salary and years of service. The assets, liabilities and costs of the plan are not segregated by participating entities. 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. As a participant in this plan, we contributed $538 thousand, $446 thousand, and $541 thousand for 2011, 2010, and 2009, respectively. Plan expenses included in “Salaries and employee benefits” in the Consolidated Statements of Income were $863 thousand, $682 thousand, and $469 thousand for 2011, 2010, and 2009, respectively.

As disclosed in the Combined AgriBank, FCB and Affiliated Associations 2011 Annual Report, the defined benefit pension plan reflects an unfunded liability totaling $393.8 million at December 31, 2011. Our individual association increases our prepaid pension asset when contributions are made and reduces our prepaid pension asset as annual expense is recorded. At December 31, 2011, to reflect the $393.8 million unfunded liability on the District balance sheet, the District reversed the prepaid pension assets and recorded the unfunded position as a liability with an offsetting charge to accumulated other comprehensive income (AOCI). The $393.8 million unfunded liability represents potential future contributions that may need to be made by the participating employers. The $454.9 million recorded in AOCI represents future expense that may need to be recognized by the participating employers. The amount ultimately to be contributed and the amount ultimately recognized as expense and the timing of those contributions and expenses, are subject to many variables including performance of plan assets and levels of interest rates. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements. Based on the District’s methodology for allocating expenses and contributions at December 31, 2011, our estimated share of the $454.9 million potential future expense would be approximately $9.1 million and our estimated share of the $393.8 million potential future cash contributions would be $7.4 million. Please refer to the Combined AgriBank, FCB and Affiliated Associations 2011 Annual Report for detailed disclosures under the FASB guidance on “Compensation – Retirement Benefits”.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plan. The anticipated costs of these benefits are accrued during the period of the employee’s active status. Postretirement benefits included in “Salaries and employee benefits” in the Consolidated Statements of Income were $39 thousand, $42 thousand, and $43 thousand for 2011, 2010, and 2009, 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 contributions under the plan were $222 thousand, $207 thousand, and $177 thousand in 2011, 2010, and 2009, respectively.

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 Farm Credit Administration 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, 2011 involved more than a normal risk of collectability.

The following table represents information on loans and leases to related parties as determined at each year end (in thousands):

	2011	2010	2009
As of December 31:			
Total related party loans and leases	**$18,683**	$18,716	$20,399
For the year ended December 31:			
Advances to related parties	**$43,965**	$29,546	$26,449
Repayments by related parties	**43,115**	32,594	26,636

The composition of related parties can be different each year end due primarily to changes in the makeup of the 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 certain information systems, financial services, accounting and reporting services, human resource services, and retail product processing and support services. The total cost of services we purchased from AgriBank was $515 thousand, $498 thousand, and $476 thousand in 2011, 2010, and 2009, respectively. We purchase benefit and payroll services from Farm Credit Foundations. Farm Credit Foundations had been operated as a part of AgriBank prior to January 1, 2012 when it formed a service corporation and thus is no longer operated as part of AgriBank. The Farm Credit System entities using Farm Credit Foundations as their payroll and benefits provider contributed an investment into the service corporation in January 2012. Our investment was $14 thousand.

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. At December 31, 2011, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $248.9 million. Additionally, we had $975 thousand of issued standby letters of credit as of December 31, 2011.

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 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. See 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, 2011, 2010 or 2009. 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 is as follows (in thousands):

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)

As of December 31, 2009	**Fair Value Measurement Using**				**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**(Losses)**
Loans	$ --	$4,368	$ --	$4,368	($2,555)
Other property owned	--	--	1	1	--

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.

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:

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 Farm Credit System borrowers, could render our portfolio unmarketable outside the Farm Credit System.

We segregate the loan portfolio into pools of loans with homogenous characteristics for purposes of determining fair value of accruing loans. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of nonaccrual loans, current as to principal and interest, are discounted with appropriately higher rates, reflecting the uncertainty of continued cash flows. We assume that for noncurrent nonaccrual loans, 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, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. We use the legal obligation if the net realizable value of the collateral exceeds the legal obligation for a particular loan.

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):

	2011		2010		2009	
As of December 31	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans, net	**$714,946**	**$732,384**	$676,528	$689,529	$601,563	$612,555
Financial liabilities:						
Note payable to AgriBank, FCB	**$608,258**	**$619,717**	$580,789	$588,013	$513,458	$519,971
Unrecognized financial instruments:						
Commitments to extend credit and letters of credit		**($312)**		($278)		($272)

NOTE 14: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly consolidated results of operations for the years ended December 31, 2011, 2010, and 2009, follow (in thousands):

2011	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$5,278**	**$5,680**	**$6,756**	**$5,875**	**$23,589**
Provision for (reversal of) 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 (reversal of) 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
Provision for (reversal of) 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 (reversal of) income taxes	31	30	117	(307)	(129)
Net income	$3,717	$2,843	$4,731	$4,058	$15,349

2009	First	Second	Third	Fourth	Total
Net interest income	$4,143	$4,477	$5,473	$5,073	$19,166
Provision for loan losses	240	497	798	966	2,501
Patronage income	270	450	497	1,029	2,246
Other expense, net	1,980	1,830	2,181	1,996	7,987
Provision for income taxes	14	13	14	164	205
Net income	$2,179	$2,587	$2,977	$2,976	$10,719

NOTE 15: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 12, 2012, 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 2011 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
Forrest City*	Owned	Branch
Osceola	Owned	Branch
Paragould	Owned	Branch
Marion	Owned	Branch
Wynne*	Owned	Branch

*The association is in the process of constructing a new facility in Wynne. Once the facility is completed the Wynne and Forrest City branches will be physically combined. The association intends to place the existing buildings for sale shortly after the move.

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, 2011.

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, 8, 9 and 11 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, 2011, 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 expires in February 2013.

Fred L. Cathcart is a rice and soybeans 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 and he owns and manages Valley View Bearing, a company which sells industrial parts in Arkansas. He was elected to his current term on the board in February 2009 which expires in February 2012. He was reelected to the board of directors in February 2012 to a term that expires in February 2016.

Johnny Ray Distretti is a self-employed grain farmer. He was elected to his current term on the board in February 2009 which expires in February 2012.

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 December 2009 which expires in December 2012.

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 2009 which expires in February 2012. He was reelected to the board of directors in February 2012 to a term that 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 expires 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 expires in February 2013.

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 2009 which expires in February 2012. He was reelected to the board of directors in February 2012 to a term that 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 expires 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 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. The Board of Directors has adopted a rate of $300 per day and a per diem rate of $100 per conference call. Board members will also receive a $2,500 annual retainer fee except for the board chairperson who receives a $3,500 annual retainer fee and the board vice chairperson who receives a $3,000 annual retainer fee. The retainer fee is equally paid at the end of each quarter.

Information regarding compensation for each director who served during 2011 follows:

	Number of Days Served: Board Meetings	Number of Days Served: Other Official Activities	Compensation paid for service on a board committee	Name of Committee	Total Compensation Paid in 2011
Carl A. Loewer	10.0	29.0	$300	Executive	$14,800
			300	AgriBank District Farm Credit Council	
			300	Arkansas Advocacy	
Fred L. Cathcart	8.0	6.0			6,300
Johnny Ray Distretti	7.0	2.0			5,200
Marion D. Fletcher	9.0	14.0	300	Arkansas Advocacy	9,000
Matt Knight	10.0	13.0	250	Audit	8,650
Donald Norwood	9.0	8.0			7,600
Jane Pirani	9.0	16.0	300	Executive	10,400
Brian (Chris) Roberts*	7.0	13.0	250	Audit	7,333
Lowry E. Robinson	8.0	11.0	100	Audit	7,200
Gary Sitzer	10.0	9.0	100	Audit	7,400
Keith Thomas	10.0	15.0			9,600
Jerry D. Turner	10.0	11.0	300	Executive	8,400
Leslie E. Turner	9.0	11.0	300	Executive	8,100
Mark Waldrip	8.0	5.0			6,000
Thomas W. Wilkie**	2.0	0.0			1,017
Total	126.0	163.0	$2,800		$117,000

*Newly elected
**Resigned

SENIOR OFFICERS

The senior officers (and the date each began his/her current position) as of December 31, 2011 included:

Gary N. Kinder, President and Chief Executive Officer (March 2005)
Shari J. Wilson, Senior Vice President, Chief Financial Officer (September 2008)
Donald E. Brown, Jr., Senior Vice President, Support Services (January 2009)
Davy Crockett, Senior Vice President, Chief Credit Officer (July 2005)
James McJunkins, Senior Vice President, Field Operations (September 1991)

All of the senior officers have been with Farm Credit Midsouth, ACA for the past five years except for Ms. Wilson. Prior to her beginning her employment with us in 2008, Ms. Wilson's business experience was as an independent CPA for a local firm providing audit, tax and bookkeeping services, an accounting manager for a large non-profit organization, and the Senior Vice President/Chief Financial Officer for Farm Credit Services of Western Arkansas.

Effective January 1, 2012, James McJunkins became the Chief Operating Officer. On March 1, 2012, he became the Chief Executive Officer upon Gary N. Kinder's retirement.

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

Name of Individual	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
Gary N. Kinder, CEO	**2011**	**$232**	**$117**	**$6**	**$ --**	**$355**
	2010	221	133	5	--	359
	2009	206	123	5	--	334
Aggregate Number of Senior Officers/Highly Compensated Individuals, excluding CEO						
Four	**2011**	**$510**	**$145**	**$6**	**$ --**	**$661**
Seven	2010	812	312	15	--	1,139
Seven	2009	758	290	14	--	1,062

Members may request information on the compensation paid during 2011 to the individuals included in the preceding table.

Senior officer incentives are paid annually based on performance criteria established by the 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 $66 thousand, $82 thousand, and $67 thousand in 2011, 2010, and 2009, 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, 2012 or at any time during 2011.

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 2011 were $24 thousand. The fees paid were for audit services.

FINANCIAL STATEMENTS

The "Report of Management", "Report of Audit Committee", "Report of Independent Auditors", "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, national origin, religion, age, sex, disability, marital status, veteran status, public assistance status, or any other condition or status covered 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.

Farm Credit Midsouth, ACA

Funds Held Disclosure

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

Farm Credit Midsouth, ACA

Young, Beginning and Small Farmers and Ranchers

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 loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

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 thousand. 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, 2011 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 thousand Farm Sales	3,724	73.7%
Total Number of Farmers	5,054	
2011 Farm Credit Midsouth, ACA Data:		
Number of Members that are ≤ 35 years of age	216	10.6%
Number of Members that had been farming ≤ 10 years when their loan was originally made	547	26.7%
Number of Members that had < $250 thousand in gross sales of agricultural products when their loan was originally made	622	30.4%
Total Number of Members in the LSA	2,046	

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 2011 results:

	% of Total Number of New Loans		% of Total Volume of New Loans	
Category	Goal	**2011 Results**	Goal	**2011 Results**
Young farmers	15%	**25.4%**	10%	**22.3%**
Beginning farmers	15%	**27.1%**	12%	**27.4%**
Small farmers	15%	**15.9%**	6%	**6.6%**

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 56 government guaranteed loans to YBS Farmers as of December 31, 2011 and made 17 new government guaranteed loans to YBS Farmers in 2011.

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 2011:

- 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

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 $11.7 thousand 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.

Farm Credit Midsouth, ACA

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