CAPITAL FARM CREDIT

Strength • Dependability • Service

Quarterly Report To Stockholders

Quarter Ended September 30, 2012

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (the Association) are prepared by management, who is responsible for the statements' 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 appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (FCB) and the Association's accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The annual consolidated financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the board of directors has oversight responsibility for the Association's systems of internal control and financial reporting. The Audit Committee consults regularly with management and meets periodically with the independent auditors and the internal auditors to review the scope and results of their work. The independent auditors and the internal auditors have direct access to the Audit Committee.

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

Ben R. Novosad

Ben R. Novosad,
Chief Executive Officer

Phillip Munden

Phillip Munden,
Chairman, Board of Directors

Don VandeVanter

Don VandeVanter,
Chief Financial Officer

November 3, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in thousands)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the Association) for the quarter ended September 30, 2012. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2011 Annual Report of the Association. Results for interim periods are not necessarily indicative of results to be expected for future periods.

The economy continues to show positive economic growth in 2012 with growth in the national gross domestic product, and small declines in the unemployment rates over the last several quarters. While some areas are still experiencing stressed crops and pasture conditions due to the lack of rainfall, overall growing conditions have significantly improved during the latter part of 2011 through the third quarter of 2012. In general, the crop conditions in the area serviced by the Association are good, and yields are expected to be above average overall. With the improved agricultural conditions, the Association's credit quality has continued to improve as nonperforming assets continue to decline and loan losses diminish.

Significant Events:

In September 2012, the board of directors approved a resolution to retire $55,000 in allocated equities which are to be paid to stockholders in November 2012. The retirement is a partial distribution of the earnings allocated in prior years, representing $11,327, $20,694, and $22,979 from those allocated in 2006, 2007, and 2008, respectively.

The board of directors approved a $126,602 patronage distribution for 2011. $38,400 of this distribution was paid in cash in March 2012. $88,202 of this distribution was made in the form of nonqualified allocated equity distributions, which means the owners of these distributions do not pay federal income taxes until the equities are retired. It is the board's intention with this allocation and future allocations to assign ownership of the earnings of the Association, allowing the stockholders to benefit more fully from the earnings of the Association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of these equities can be made.

In November 2011, as part of the evaluation of its capital position, the Association retired $50,000 in non-qualified allocated equities. These equities represented $10,295, $18,805, and $20,900 from those allocated in 2006, 2007 and 2008, respectively.

The 2011 and 2012 equity retirements, combined with the cash portions of the patronage refunds, represent more than $175 million in capital distributions to our borrowers in the last two years. For an average customer who has done business with the Association since 2006, these distributions have effectively reduced the customer's borrowing cost by almost 3.5 percent over the last two years. The Association believes these distributions display our intent to not only lend money to our borrowers, but to enrich their success in agriculture and rural America.

Loan Portfolio:

Total loan volume was $5,135,987 at September 30, 2012. This compares with loan volume owned by the Association at December 31, 2011 of $4,932,437. This represents an increase of $203,550, or approximately 4.1 percent. Over $90 million of this increase is from a rise in production volume as crop and pasture conditions are significantly improved from 2011 in many parts of the Association's territory. Real estate mortgage loans have increased more than $56 million as more buyers return to the rural real estate market. The rest of the increase in loan volume is attributed to growth in the Agribusiness portfolio and loan participations purchased. The Association has expectations that this growth in loan volume will continue with the Association's increased marketing efforts and new loan programs.

The quality of the Association's loan portfolio improved with a $21,577 decrease in high-risk assets since the previous year's end. The following table summarizes the Association's components and trends of high-risk assets:

	September 30, 2012	%	December 31, 2011	%
Nonaccrual loans	**$ 116,798**	**84.1**	$ 138,105	86.1
Loans 90 days past due and still accruing interest	**1,819**	**1.3**	4,925	3.1
Formally restructured loans	**13,509**	**9.7**	11,127	6.9
Other property owned, net	**6,674**	**4.9**	6,220	3.9
Total	**$ 138,800**	**100.0**	$ 160,377	100.0

This improvement was a direct result of the $21,307 decrease in nonaccrual loans during the first nine months of 2012. Most of this reduction was from repayments received on some of these nonaccrual loans.

The decrease of $3,106 in loans that are 90 or more days past due and still accruing interest is evidence that loans are moving through the servicing and collection process. Loans that remain in this category are to customers that have a documented plan that details how and when the amount owed will be paid.

Formally restructured loans increased $2,382 during the first nine months of 2012. The Association is cooperating with distressed borrowers to work through temporary repayment problems, where possible. These restructurings may include a modification of loan terms to accommodate the financial difficulties of the customer.

Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable. In addition, management has in place processes to evaluate, identify and monitor counter party risk that could have an adverse impact on the loan portfolio.

Results of Operations:

The Association's net income for the nine months ended September 30, 2012 was $109,643 as compared to $96,250 for the nine months ended September 30, 2011, an increase of $13,393, or 13.9 percent.

The improvement in net income was affected by an increase in net interest income, an increase in noninterest income, a decrease in the provision for loan losses, offset somewhat by an increase in noninterest expense. Net interest income was $125,975 for the first nine months of 2012 as compared to $120,431 for the same time period in 2011. Noninterest income was $24,405 for the first nine months of 2012 as compared to $16,596 for the same time period in 2011. The Association reversed provision for loan losses in the amount of $742 for the nine months ended September 30, 2012, as compared to provision expense of $1,688 for the same period in 2011. Noninterest expenses was $41,382 for the first nine months of 2012 as compared to $39,046 for the same time period in 2011.

Net interest income increased by $5,544 during the nine months of 2012 compared to the same time period for 2011. Interest margins on loans continue to improve as the Association's cost of funds decrease and the amount of capital relative to loans increases. Some of this improvement has been offset by a decline in interest rates charged to customers. The effects of changes in average volume and interest rates on net interest income in the nine months ended September 30, 2012, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the nine months ended September 30, 2012		For the nine months ended September 30, 2011	
	Average Balance	**Interest**	Average Balance	Interest
Accrual loans and investments	**$ 4,881,210**	**$ 193,431**	$ 4,820,924	$ 203,203
Interest-bearing liabilities	**4,178,547**	**67,456**	4,231,431	82,772
Impact of capital	**$ 702,663**		$ 589,493	
Net interest income		**$ 125,975**		$ 120,431

	Average Yield	Average Yield
Yield on loans	**5.29%**	5.64%
Cost of interest-bearing Liabilities	**2.16%**	2.62%
Net interest margin	**3.13%**	3.02%

	2012 vs. 2011		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ 2,543**	**$ (12,315)**	**$ (9,772)**
Interest expense	**(1,036)**	**(14,280)**	**(15,316)**
Net interest income	**$ 3,579**	**$ 1,965**	**$ 5,544**

The Association's noninterest income increased from $16,596 in the first nine months of 2011 to $24,405 in the first nine months of 2012. The majority of this difference is the result of an increase in other income of $5,236. This increase is due to a refund in the amount of $4,729 in Farm Credit System Insurance Corporation (FCSIC) premiums for excess reserves distributed from the Insurance Fund. The Association has received a patronage refund over the last several years from the Farm Credit Bank of Texas (FCB). This refund is paid annually to the Association in December by a direct reduction in its Note payable to FCB. For the first nine months of 2011, the Association accrued 0.30 percent of its average Note payable balance. In its 2012 Capital plan, the FCB has declared its intention to pay 0.40 percent of the average Note payable. Therefore, the Association's patronage income is $2,692 more in the first nine months of 2012 than the same period in 2011.

The Association continues to see an improvement in its provision for loan losses with the improvement in credit quality. As discussed previously, high risk assets have decreased $21,577 during the first nine months of 2012. In addition, substandard loans as a percentage of total loans decreased from 4.6 percent at December 31, 2011 to 3.6 percent at September 30, 2012. With the decrease in the risk in the Association's portfolio, the Association has been able to lower its allowance for loan losses. Therefore, the Association has recorded negative provision of $742 for the first nine months of 2012, versus provision expense of $1,688 for the first nine months of 2011.

Noninterest expenses increased $2,336 in the first nine months of 2012 as compared to the same time period in 2011. This increase is primarily attributable to an increase of $2,188 in loss on other property owned. The Association recognized a loss on one of its foreclosed properties based upon a new appraisal and a reevaluation on the marketability of the property. The Association had a decrease in the pension plan funding expense of $1,178 compared to the same time period in 2011. The Association also had some increases in advertising and public and member relations as the Association is placing additional emphasis on loan growth in 2012.

Liquidity and Funding Sources:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the FCB. The FCB manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the Association is a direct loan from the FCB. The Association had an outstanding balance of $4,278,743 at September 30, 2012, as compared to $4,104,831 at December 31, 2011. This increase in note payable to the Bank since December 2011 is the result of the increase in the Association's loan portfolio and the payment of the patronage distributions payable that was outstanding at December 31, 2011. The direct loan carried a weighted average interest rate of 2.16 percent for the nine months ended September 30, 2012, compared to 2.56 percent for the year ended December 31, 2011. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the FCB and is governed by a financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2012. As borrower payments are received they are applied to the Association's note payable with the FCB.

The Association will continue to fund its operations through direct borrowings from the FCB, retained earnings, member stock and funds held in trust. It is management's opinion that funds available to the Association are sufficient to fund its operations for the next twelve months. See Note 5 to the consolidated financial statements, "Note payable to the Farm Credit Bank of Texas" for a discussion on the Association's borrowing obligations and limitations with FCB.

Capital Resources:

The Association's capital position remains strong, with total capital of $926,200 at September 30, 2012. This represents an increase of $54,602 from the December 31, 2011 total capital level of $871,598. This increase in capital is a direct result of the Association's net income for the period, offset by the aforementioned decision to retire $55,000 of allocated earnings. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at September 30, 2012 was 16.79 percent. The Association's core surplus ratio and total surplus ratio at September 30, 2012 were 14.17 percent and 16.36 percent, respectively, which is in compliance with the FCA's minimum ratio requirements of 3.5 percent and 7.0 percent, respectively.

Reclassification of Nonqualified Patronage Allocations:

First Ag Credit, prior to the merger with Capital Farm Credit in 2008, retroactively allocated its 2007 and 2008 earnings that were not paid in cash patronage refunds as nonqualified patronage allocations with no intent to revolve. As such, they were classified as unallocated earnings on the Association's balance sheet.

Although there is not a formal revolvement cycle in place or notice of allocation to the stockholders, the partial retirement of these allocations in 2010 and 2011 warranted a change in the classification of the remaining $19,897 of nonqualified allocations to allocated earnings in the Association's financial statements. These equities have been excluded from the core surplus ratio calculation, which represent proper presentation of the Association's core surplus ratio.

Relationship with the Farm Credit Bank of Texas:

The Association's statutory obligation to borrow only from the FCB is discussed in Note 5 to the consolidated financial statements, "Note Payable to the Farm Credit Bank of Texas," included in this quarterly report.

The FCB's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 5 to the consolidated financial statements, "Note Payable to the Farm Credit Bank of Texas," included in this quarterly report.

The FCB provides computer systems to support the critical operations of the Association. The Association also has operating systems and facility-based systems that are not supported by the FCB. The FCB also provides other services the Association can utilize.

The Association's financial condition may be impacted by factors that affect the FCB as discussed in Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report. The financial condition and results of operations of the FCB may materially affect the stockholders' investment in the Association.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P. O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The District's annual and quarterly stockholder reports are also available on its Website at *www.farmcreditbank.com*.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Capital Farm Credit, ACA, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the Association's quarterly and annual stockholder reports are also available on its Website at *www.capitalfarmcredit.com* or can be requested by e-mailing *isela.morales@capitalfarmcredit.com*.

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEET
(Dollars in thousands)

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
Loans	**$ 5,135,987**	$ 4,932,437
Less: Allowance for losses	**(33,544)**	(37,023)
Net loans	**5,102,443**	4,895,414
Cash	**29**	1,286
Accrued interest receivable - loans	**55,772**	44,386
Accrued interest receivable - investments	**276**	194
Investments – held-to-maturity	**17,720**	19,523
Investment in and receivable from the FCB:		
Capital stock	**84,404**	84,404
Receivable	**16,436**	11,960
Other property owned, net	**6,674**	6,220
Premises and equipment, net	**11,246**	10,875
Other assets	**8,884**	4,097
Total assets	**$ 5,303,884**	$ 5,078,359
LIABILITIES		
Note payable to the FCB	**$ 4,278,743**	$ 4,104,831
Advanced conditional payments	**8,243**	9,580
Accrued interest payable	**7,036**	8,262
Drafts outstanding	**-**	6,272
Patronage distributions payable	**55,003**	38,402
Unfunded post retirement medical obligation	**18,355**	17,730
Other liabilities	**10,304**	21,684
Total liabilities	**4,377,684**	4,206,761
MEMBERS' EQUITY		
Capital stock and participation certificates	**22,064**	21,856
Non-qualified allocated retained earnings	**246,573**	281,671
Unallocated retained earnings	**656,776**	567,030
Accumulated other comprehensive income	**787**	1,041
Total members' equity	**926,200**	871,598
Total liabilities and members' equity	**$ 5,303,884**	$ 5,078,359

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Dollars in thousands)
(UNAUDITED)

	For the three months ended September 30, 2012	For the three months ended September 30, 2011	**For the nine months ended September 30, 2012**	For the nine months ended September 30, 2011
INTEREST INCOME				
Loans	**$ 64,497**	$ 66,654	**$ 192,737**	$ 202,350
Investments	**221**	262	**694**	853
Total interest income	**64,718**	66,916	**193,431**	203,203
INTEREST EXPENSE				
Note payable to the FCB and others	**21,813**	26,623	**67,456**	82,772
Net interest income	**42,905**	40,293	**125,975**	120,431
PROVISION FOR LOAN LOSSES				
Provision for (reversal of) loan losses	**(380)**	(2,492)	**(742)**	1,688
Net interest income after provision for losses	**43,285**	42,785	**126,717**	118,743
NONINTEREST INCOME				
Patronage income from the FCB	**4,673**	3,646	**13,836**	11,144
Loan fees	**1,511**	1,917	**4,082**	4,201
Other income	**295**	304	**6,487**	1,251
Total noninterest income	**6,479**	5,867	**24,405**	16,596
NONINTEREST EXPENSES				
Salaries and employee benefits	**7,112**	6,207	**20,756**	20,070
Pension plan funding expense	**1,230**	1,623	**3,690**	4,868
Occupancy and equipment	**648**	561	**2,118**	1,921
Travel	**614**	547	**1,650**	1,492
Loss on other property owned, net	**535**	226	**3,037**	849
Farm Credit System insurance premium	**524**	636	**1,556**	1,945
Advertising	**463**	356	**1,348**	970
Purchased services and allocations	**445**	480	**1,257**	1,666
FCA supervisory and exam expense	**341**	346	**1,023**	1,039
Communications	**308**	218	**763**	623
Public and member relations	**260**	337	**1,235**	1,116
Directors' expense	**154**	119	**514**	469
Other expenses	**900**	749	**2,435**	2,018
Total noninterest expenses	**13,534**	12,405	**41,382**	39,046
Income before federal income tax	**36,230**	36,247	**109,740**	96,293
Federal income tax	**68**	7	**97**	43
NET INCOME	**$ 36,162**	$ 36,240	**$ 109,643**	$ 96,250
Other comprehensive loss:				
Change in postretirement benefit plans	**(85)**	(105)	**(254)**	(313)
Income tax expense related to items of other comprehensive income	**-**	-	**-**	-
Other comprehensive loss, net of tax	**(85)**	(105)	**(254)**	(313)
COMPREHENSIVE INCOME	**$ 36,077**	$ 36,135	**$ 109,389**	$ 95,937

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(Dollars in thousands)
(UNAUDITED)

	Capital Stock/ Participation Certificates	Retained Earnings: Non-qualified Allocated	Retained Earnings: Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2010	$ 22,399	$ 243,561	$ 566,822	$ 1,672	$ 834,454
Net income	-	-	96,250	-	96,250
Other comprehensive loss	-	-	-	(313)	(313)
Capital stock/participation certificates issued	1,895	-	-	-	1,895
Capital stock/participation certificates/ allocated equities retired	(2,410)	(50,000)	-	-	(52,410)
Other adjustments	-	(96)	-	-	(96)
Balance at September 30, 2011	21,884	193,465	663,072	1,359	879,780
Net income	-	-	30,560	-	30,560
Other comprehensive loss	-	-	-	(318)	(318)
Capital stock/participation certificates issued	668	-	-	-	668
Capital stock/participation certificates/ allocated equities retired	(696)	-	-	-	(696)
Patronage distributions declared:					
Cash	-	-	(38,400)	-	(38,400)
Nonqualified allocations	-	88,202	(88,202)	-	-
Other adjustments	-	4	-	-	4
Balance at December 31, 2011	21,856	281,671	567,030	1,041	871,598
Net income	-	-	109,643	-	109,643
Other comprehensive loss	-	-	-	(254)	(254)
Capital stock/participation certificates issued	2,496	-	-	-	2,496
Capital stock/participation certificates/ allocated equities retired	(2,288)	(55,000)	-	-	(57,288)
Reclassification of nonqualified allocations		19,897	(19,897)		-
Other adjustments	-	5	-	-	5
Balance at September 30, 2012	**$ 22,064**	**$ 246,573**	**$ 656,776**	**$ 787**	**$ 926,200**

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

CAPITAL FARM CREDIT, ACA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Capital Farm Credit, ACA including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the "Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders (farmers, ranchers, rural home owners and certain farm-related businesses) for qualified agricultural purposes in 192 counties in the state of Texas.

The Association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act.)

A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of December 31, 2011 are contained in the 2011 Annual Report to Stockholders. These unaudited third quarter 2012 consolidated financial statements should be read in conjunction with the 2011 Annual Report to Stockholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements that reports both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by the FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The Farm Credit Bank of Texas (FCB) and its related associations are collectively referred to as the "District." The Association's financial condition may be affected by factors that affect the FCB. The financial condition and results of operations of the FCB may materially affect stockholders' investment in the Association. Upon request, stockholders of the Association will be provided the Tenth Farm Credit District's Annual Report to Stockholders, which includes the combined financial statements of the FCB and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the FCB and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Farm Credit System Insurance Corporation.

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. It is the Association's policy to not participate in the use of derivatives, but the Association will have some financial instruments that are affected by these disclosure requirements. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact the financial condition or results of operations, but will result in additional disclosures.

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

In June and December 2011, the FASB issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. Main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. This guidance did not change the items that must be reported in other comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments. This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance does not impact financial condition or results of operations, but resulted in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments clarify certain aspects of the fair value measurement and disclosure requirements. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 31, 2011. The adoption of this guidance did not impact the financial condition or results of operations but resulted in additional disclosures.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring (TDR)," which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance did not have an impact on the Association's financial condition or results of operations, but did result in additional disclosures.

NOTE 2 — INVESTMENTS:

Investments Held-to-Maturity

The Association's held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

September 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Gain (Losses)	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 17,720	$ -	$ 98	$ 17,818	4.86%	3.66

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (Losses)	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 19,523	$ -	$ (88)	$ 19,435	4.92%	3.86

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitment to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. The Association continues to service the loans included in the transaction.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

Long-term real estate mortgage loans generally have maturities ranging up to 30 years. Short-term and intermediate-term production and equipment loans have maturities of 10 years or less. Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years.)

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be transferred to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified as "doubtful" or "loss."

A summary of loans follows:

Industry	**September 30, 2012**	%	December 31, 2011	%
Production agriculture:				
Real estate mortgage	**$ 4,034,627**	**78.6**	$ 3,978,145	80.7
Production and term	**543,190**	**10.6**	452,870	9.2
Agribusiness	**373,231**	**7.3**	344,862	7.0
Rural residential real estate	**81,396**	**1.6**	75,392	1.5
Communication	**42,456**	**0.8**	28,269	0.6
Energy	**37,652**	**0.7**	25,335	0.5
Mission related investments	**19,188**	**0.3**	21,116	0.4
Lease receivables	**4,237**	**0.1**	6,290	0.1
Water and waste water	**10**	**-**	158	-
Total	**$ 5,135,987**	**100.0**	$ 4,932,437	100.0

At September 30, 2012, the Association held 7 transactions, which are reported as loans on the consolidated balance sheet totaling $9,837 and with $120 remaining commitments extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold as of September 30, 2012:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 93,274	$ 40,600	$ 6,782	$ -	$ 100,056	$ 40,600
Production and intermediate term	136,840	11,234	-	-	136,840	11,234
Agribusiness	208,002	26,782	20,028	-	228,030	26,782
Communication	42,456	-	-	-	42,456	-
Energy	37,652	-	-	-	37,652	-
Lease receivables	4,157	-	-	-	4,157	-
Mission Related	5,283	-	4,554	-	9,837	-
Total	$ 527,664	$ 78,616	$ 31,364	$ -	$ 559,028	$ 78,616

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

	September 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	**$ 76,734**	$ 104,009
Production and intermediate-term	**5,304**	7,538
Agribusiness	**33,200**	22,303
Communication	**734**	790
Residential Real Estate	**759**	504
Lease receivable	**67**	2,881
Mission related investments	**-**	80
Total nonaccrual loans	**$ 116,798**	$ 138,105
Accruing restructured loans:		
Real estate mortgage	**$ 8,494**	$ 5,843
Production and intermediate-term	**2,702**	680
Agribusiness	**2,353**	4,612
Total accruing restructured loans	**$ 13,549**	$ 11,135
Accruing loans 90 days or more past due:		
Real estate mortgage	**$ 1,847**	$ 172
Production and intermediate-term	**5**	2,144
Agribusiness	**-**	2,684
Total accruing loans 90 days or more past due	**$ 1,852**	$ 5,000
Total nonperforming loans	**$ 132,199**	$ 154,240
Other property owned	**6,674**	6,220
Total nonperforming assets	**$ 138,873**	$ 160,460

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

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

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

	September 30, 2012	December 31, 2011
Real estate mortgage		
Acceptable	**94.5%**	92.8%
OAEM	**2.4%**	3.0%
Substandard/doubtful	**3.1%**	4.2%
	100.0%	100.0%
Production and intermediate-term		
Acceptable	**90.0%**	88.5%
OAEM	**6.7%**	8.2%
Substandard/doubtful	**3.3%**	3.3%
	100.0%	100.0%
Agribusiness		
Acceptable	**84.5%**	80.9%
OAEM	**5.0%**	7.8%
Substandard/doubtful	**10.5%**	11.3%
	100.0%	100.0%
Energy		
Acceptable	**72.6%**	80.5%
OAEM	**14.6%**	9.3%
Substandard/doubtful	**12.8%**	10.2%
	100.0%	100.0%
Water and waste water		
Acceptable	**100.0%**	100.0%
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0%	100.0%
Communication		
Acceptable	**98.3%**	97.2%
OAEM	**-**	-
Substandard/doubtful	**1.7%**	2.8%
	100.0%	100.0%
Rural residential real estate		
Acceptable	**97.3%**	97.0%
OAEM	**1.6%**	1.8%
Substandard/doubtful	**1.1%**	1.2%
	100.0%	100.0%
Lease receivables		
Acceptable	**98.4%**	54.2%
OAEM	**-**	-
Substandard/doubtful	**1.6%**	45.8%
	100.0%	100.0%
Mission related investments		
Acceptable	**98.3%**	98.1%
OAEM	**-**	1.5%
Substandard/doubtful	**1.7%**	0.4%
	100.0%	100.0%
Total Loans		
Acceptable	**93.3%**	91.6%
OAEM	**3.1%**	3.8%
Substandard/doubtful	**3.6%**	4.6%
	100.0%	100.0%

The following table provides an age analysis of past due loans (including accrued interest) as of September 30, 2012 and December 31, 2011:

September 30, 2012	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Accrual Loans 90 Days or more past due
Real estate mortgage	$ 34,056	$35,071	$ 69,127	$ 3,988,564	4,057,691	$ 1,847
Production and intermediate term	6,368	4,266	10,634	544,180	554,814	5
Agribusiness	8,994	7,270	16,264	358,806	375,070	-
Communication	-	-	-	42,565	42,565	-
Energy	-	-	-	37,805	37,805	-
Water and waste water	-	-	-	10	10	-
Rural residential real estate	1,327	10	1,337	98,702	100,039	-
Lease receivables	-	-	-	4,321	4,321	-
Mission related investments	3,617	-	3,617	15,827	19,444	-
Total	$ 54,362	$46,617	$ 100,979	$ 5,090,780	$5,191,759	$ 1,852

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	Accrual Loans 90 Days or more past due
Real estate mortgage	$ 21,948	$67,517	$ 89,465	$ 3,904,107	$3,993,572	$ 172
Production and intermediate term	3,377	4,706	8,083	451,262	459,345	2,144
Agribusiness	2,900	10,698	13,598	332,710	346,308	2,684
Communication	-	-	-	28,379	28,379	-
Energy	-	-	-	25,375	25,375	-
Water and waste water	-	-	-	159	159	-
Rural residential real estate	595	271	866	95,143	96,009	-
Lease receivables	-	2,759	2,759	3,634	6,393	-
Mission related investments	-	-	-	21,283	21,283	-
Total	$ 28,820	$85,951	$ 114,771	$ 4,862,052	$4,976,823	$ 5,000

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of September 30, 2012 the total troubled debt restructured loans was $15,027, including $1,478 classified as nonaccrual and $13,549 classified as accrual, with specific allowance for loan losses of $305. As of September 30, 2012 commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $432.

The Association restructured one loan that met the definition of TDR during the quarter ended September 30, 2012.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The Association had two loans that met the accounting criteria as a troubled debt restructuring and that occurred during the previous 12 months, and for which there was a payment default during that same period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Additional impaired loan information is as follows:

	At September 30, 2012			At December 31, 2011		
	Loan Balance	Unpaid Principal Balance[a]	Related Specific Allowance	Loan Balance	Unpaid Principal Balance[a]	Related Specific Allowance
Impaired loans with a related allowance for loan losses:						
Real estate mortgage	$ 35,014	$ 42,552	$ 3,326	$ 55,180	$ 67,170	$ 9,124
Production and intermediate term	2,561	4,102	822	2,402	4,017	935
Agribusiness	20,498	20,751	10,284	13,039	13,271	6,910
Communication	734	734	453	791	790	453
Rural residential real estate	208	208	45	25	39	3
Lease receivables	-	-	-	2,759	2,759	27
Mission related investments	-	-	-	-	-	-
Total	$ 59,015	$ 68,347	$ 14,930	$ 74,196	$ 88,046	$ 17,452
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	$ 52,013	$ 55,530	$ -	$ 54,762	$ 57,236	$ -
Production and intermediate term	5,428	10,357	-	7,960	12,436	-
Agribusiness	15,053	39,663	-	16,559	40,716	-
Communication	-	-	-	-	-	-
Rural residential real estate	551	660	-	478	568	-
Lease receivables	66	66	-	122	122	-
Mission related investments	-	-	-	80	95	-
Total	$ 73,111	$ 106,276	$ -	$ 79,961	$ 111,173	$ -
Total impaired loans:						
Real estate mortgage	$ 87,027	$ 98,082	$ 3,326	$ 109,942	$ 124,406	$ 9,124
Production and intermediate term	7,989	14,459	822	10,362	16,453	935
Agribusiness	35,551	60,414	10,284	29,598	53,987	6,910
Communication	734	734	453	791	790	453
Rural residential real estate	759	868	45	503	607	3
Lease receivables	66	66	-	2,881	2,881	27
Mission related investments	-	-	-	80	95	-
Total	$ 132,126	$ 174,623	$ 14,930	$ 154,157	$ 199,219	$ 17,452

[a]Unpaid principal balance represents the recorded principal balance of the loan.

	For the year-to-date Period Ended September 30, 2012		For the Year Ended December 31, 2011	
	Average Impaired Loans**	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Real estate mortgage	$ 39,716	$ 9	$ 43,496	$ 625
Production and intermediate term	2,530	28	2,792	2
Agribusiness	18,924	190	17,547	31
Communication	777	-	1,012	-
Rural residential real estate	105	5	17	1
Lease receivables	920	-	2,800	-
Mission related investments	-	-	-	-
Total	$ 62,972	$ 232	$ 67,664	$ 659
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	$ 52,357	$ 961	$ 62,533	$ 1,603
Production and intermediate term	5,709	160	8,549	377
Agribusiness	16,386	229	17,986	512
Communication	-	-	-	-
Rural residential real estate	544	6	374	10
Lease receivables	80	-	47	8
Mission related investments	9	-	2	6
Total	$ 75,085	$ 1,356	$ 89,491	$ 2,516
Total impaired loans:				
Real estate mortgage	$ 92,073	$ 970	$ 106,029	$ 2,228
Production and intermediate term	8,239	188	11,341	379
Agribusiness	35,310	419	35,533	543
Communication	777	-	1,012	-
Rural residential real estate	649	11	391	11
Lease receivables	1,000	-	2,847	8
Mission related investments	9	-	2	6
Total	$ 138,057	$ 1,588	$ 157,155	$ 3,175

**Average loans are not deemed to be changed for one day’s activity.

A summary of changes in the allowance for loan losses and the ending balance including accrued interest of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Lease Receivable	Mission Related Investments	Total
Allowance for loan losses:									
Balance at December 31, 2011	$ 22,596	$ 4,018	$ 9,586	$ 537	$ 112	$ 125	$ 34	$ 15	$ 37,023
Charge-offs	(4,040)	(466)	(516)	-	-	(19)	-	(3)	(5,044)
Recoveries	1,809	161	334	-	-	4	-	-	2,308
Provision for loan losses	(5,312)	651	3,432	98	340	63	(27)	12	(743)
Balance at September 30, 2012	$ 15,053	$ 4,364	$ 12,836	$ 635	$ 452	$ 173	$ 7	$ 24	$ 33,544
Allowance for loan losses:									
Individually evaluated for impairment	$ 3,326	$ 822	$ 10,284	$ 453	$ -	$ 45	$ -	$ -	$ 14,930
Allowance for loan losses:									
Collectively evaluated for impairment	$ 11,727	$ 3,542	$ 2,552	$ 182	$ 452	$ 128	$ 7	$ 24	$ 18,614
Loans, including accrued interest:									
Ending Balance at September 30, 2012	$ 4,058,997	$ 553,510	$ 375,070	$ 42,565	$ 37,815	$ 100,038	$ 4,321	$ 19,443	$ 5,191,759
Ending balance for loans Individually evaluated for impairment	$ 87,027	$ 7,989	$ 35,551	$ 734	$ -	$ 759	$ 66	$ -	$ 132,126
Ending balance for loans Collectively evaluated for impairment	$ 3,971,970	$ 545,521	$ 339,519	$ 41,831	$ 37,815	$ 99,279	$ 4,255	$ 19,443	$ 5,059,633

NOTE 4 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2011 Annual Report to Stockholders for a more complete description.

Assets held in non-qualified benefits trusts related to deferred compensation and supplemental retirement plans are classified with Level 1. Level 1 valuation utilizes quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The trust funds include investments that are actually traded and have quoted net asset values that are quoted in the marketplace. The assets held in non-qualified benefits trusts are measured at fair value on a recurring basis and are summarized below:

	Total Fair Value September 30, 2012	**Total Fair Value December 31, 2011**
Beginning Balance	**$ 2,006**	**$ 1,702**
Transfers In	**660**	**473**
Transfers Out	**-**	**-**
Other Market Changes	**221**	**(169)**
Assets held in non-qualified benefits trusts	**$ 2,887**	**$ 2,006**

Sensitivity to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices may not be available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

With regard to impaired loans and other property owned generally classified as Level 3 and evaluated for impairment, it is not practicable to provide specific information on inputs as each collateral property is unique. The Association utilizes appraisals to value these loans and other property owned and take into account unobservable inputs such as, income and expense, comparable sales, replacement cost and comparability adjustments.

These assets are measured at fair value on a non-recurring basis and are summarized below:

	Total Fair Value September 30, 2012	Total Fair Value December 31, 2011
Impaired Loans	**$ 90,776**	$ 128,999
Investments Held-to-Maturity	**17,818**	19,435
Other property owned	**6,674**	6,220
Total	**$ 115,268**	$ 154,654

NOTE 5 — NOTE PAYABLE TO THE FARM CREDIT BANK OF TEXAS:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the FCB. The FCB manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the FCB, under a general financing agreement between the FCB and the Association, represents demand borrowings by the Association to fund the majority of its loan advances to Association members. The indebtedness is collateralized by a pledge of substantially all of the Association's assets.

The total amount and the weighted average interest rate of the Association's direct loan from the FCB were $4,278,743 at 2.16 percent, and $4,104,831 at 2.58 percent for the nine months ended September 30, 2012 and year ended December 31, 2011, respectively. The FCB periodically reprices the rate on portions of the direct loan as the pricing terms expire.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2011, 2010 and 2009, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of September 30, 2012, was $5,087,229, as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans.

NOTE 6 — MEMBERS EQUITY:

The board of directors approved a $126,602 patronage distribution for 2011. $38,400 of this distribution was paid in cash in March 2012. $88,202 of this distribution was made in the form of nonqualified allocated earnings distributions. The owners of these distributions will not pay federal income taxes until the earnings are retired since the earnings distributed were nonqualified. It is the board's intention with this allocation and future allocations to assign ownership of the earnings of the Association, allow the stockholders to benefit more fully from the earnings of the Association, and to create a method to make future earnings distributions in the form of cash. While there is not a planned retirement of allocated earnings, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of any outstanding allocated earnings can be made.

In September 2012, the board of directors approved a resolution to retire $55,000 in allocated equities which are to be paid to stockholders in November 2012. The retirement is a partial distribution of the earnings allocated in 2006, 2007, and 2008.

	November 2012 Retirement	Remaining Allocated Earnings
2006	**$ 11,327**	**$ 8,730**
2007	**20,694**	**18,317**
2008	**22,979**	**17,644**
2009	**-**	**40,111**
2010	**-**	**73,560**
2011	**-**	**88,211**
Total	**$ 55,000**	**$ 246,573**

Reclassification of Nonqualified Patronage Allocations:

First Ag Credit, prior to the merger with Capital Farm Credit in 2008, retroactively allocated its 2007 and 2008 earnings that were not paid in cash patronage refunds as nonqualified patronage allocations with no intent to revolve. As such, they were classified as unallocated earnings on the Association's balance sheet.

Although there is not a formal revolvement cycle in place or notice of allocation to the stockholders, the partial retirement of these allocations in 2010 and 2011 warranted a change in the classification of the remaining $19,897 of nonqualified allocations to allocated earnings in the Association's financial statements. These equities have been excluded from the core surplus ratio calculation, which represent proper presentation of the Association's core surplus ratio.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The Association previously disclosed in its 2011 Annual Report, that it expected to contribute $4,920 to its pension plan in 2012, which will be $1,572 less than the 2011 contribution. Pension plan funding expense was $3,690 and $4,868 for the nine months ended September 30, 2012 and 2011 respectively.

NOTE 8 — ACCUMULATED OTHER COMPREHENSIVE INCOME:

The new FASB standard for presentation of comprehensive income requires entities to present items of net income and other comprehensive income either in one continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The new standard eliminates the option to present items of other comprehensive income in the statement of changes in equity. The Association elected to present comprehensive income consistently in one continuous statement. The standard also requires disclosure of the changes in the accumulated balances for each component of other comprehensive income. For the periods reflected in the accompanying financial statements, the only component of accumulated other comprehensive income relates to postretirement benefit costs. The following table summarizes the changes in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2012	2011
Accumulated other comprehensive income at January 1	$ 1,041	$ 1,672
Amortization of prior service credit (costs) included in net period postretirement benefit cost	(254)	(313)
Amortization of actuarial gain included in net periodic postretirement benefit cost	-	-
Income tax expense related to items of other comprehensive income	-	-
Other comprehensive income (loss), net of tax	(254)	(313)
Accumulated other comprehensive income at September 30	$ 787	$ 1,359

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 3, 2012 which is the date the financial statements were issued and there are no significant events requiring disclosure as of this date.