



Yankee Farm Credit, ACA

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**CONSOLIDATED FINANCIAL STATEMENTS
SECOND QUARTER ENDED JUNE 30, 2012**

August 9, 2012

Dear Shareholder:

Enclosed are the Association's consolidated financial statements for the second quarter of 2012. These statements should be read in conjunction with the 2011 Annual Report to Shareholders.

The purpose of these financial statements is to provide timely financial information about your Association's financial condition and results of operations. Should you have any questions about these statements, please call us.

Copies of the Association's annual and quarterly reports are available to members at no charge from any of our local offices or by accessing the Association's website at www.yankeeaca.com. The Association's annual reports are available 75 days after year end, and quarterly reports are available 40 days after the end of each calendar quarter. As a shareholder, your investment in the Association is materially affected by the financial condition and results of operations of CoBank, ACB. CoBank's annual and quarterly reports are available at no charge from any of our offices. Our office locations are listed at the end of this report.

The undersigned certify that they have reviewed this report and it has been prepared in accordance with all statutory and regulatory requirements and that the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief. The financial statements, in the opinion of management, fairly present the financial condition of the institution except as noted.

Sincerely,


Rocklyn A. Giroux
Chairperson, Board of Directors


George S. Putnam
President and CEO


Rocki-Lee DeWitt
Chairperson, Audit Committee


Greg M. LeDuc
Chief Financial Officer

YANKEE FARM CREDIT, ACA

Management's Discussion & Analysis of Results of Operations and Financial Condition

Second Quarter Ended June 30, 2012

(Dollars in thousands, except as noted)
(Unaudited)

Results of Operations: Second Quarter

Net income for the second quarter of 2012 was \$2.456 million, up \$621 thousand (34%) from net income of \$1.835 million in the second quarter of 2011.

Net interest income before the provision for loan losses was up \$119 thousand (4%) in 2012 as compared to 2011. The following table shows the components of this increase:

<u>Changes in net interest income due to:</u>	
Changes in volumes of accrual loans & debt	\$ 173
Changes in interest rates on accrual loans & debt	(3)
Changes in interest income on nonaccrual loans	(0)
Changes in interest rate swap income	(50)
Other adjustments	(1)
Total change in net interest income	<u>\$ 119</u>

Changes in accrual volumes and rates are shown in the following table:

	Three Months Ended June 30,	
	2012	2011
Average accrual loan volume	\$ 342,884	\$ 323,031
Average interest rate on loans	4.21%	4.33%
Average interest rate spread	3.42%	3.39%

Average loan volume was higher in 2012, and this contributed an increase of \$173 thousand to the total change in net interest income as shown in the first table above. This increase to net interest income was offset by a decrease in swap interest income of \$50 thousand as shown in the first table above.

There was a reversal of the provision for credit losses of \$37 thousand in the second quarter of 2012, as compared to no provision for credit losses in the second quarter of 2011.

Other income increased by \$484 thousand (72%) in 2012 as compared to 2011. Loan fees and other income increased by \$387 thousand. This increase resulted primarily from \$393 thousand in refunds from the Farm Credit System Insurance Corporation (FCSIC) related to the Farm Credit Insurance Fund (Fund). The Fund is required by statute to maintain a secure base amount equal to 2% of the System's insured debt. When the Fund exceeds that base (as it did in 2011), FCSIC may refund excess amounts.

Other expense increased by \$19 thousand (1%) in 2012 as compared to 2011. Salaries and employee benefits increased by \$40 thousand (4%).

Results of Operations: Year-to-Date

Net income through the second quarter of 2012 was \$4.520 million, \$688 thousand (18%) from net income of \$3.832 million through the second quarter of 2011.

There was a reversal of the provision for credit losses of \$112 thousand through the second quarter of 2012, as compared to no provision for credit losses for the same period in 2011.

Management's Discussion & Analysis (cont.)

Net interest income before the provision for loan losses was up \$179 thousand (3%) in 2012 as compared to 2011. The following table shows the components of this increase:

<u>Changes in net interest income due to:</u>	
Changes in volumes of accrual loans & debt	\$ 249
Changes in interest rates on accrual loans & debt	73
Changes in interest income on nonaccrual loans	(44)
Changes in interest rate swap income	(102)
Other adjustments	3
Total change in net interest income	\$ 179

Changes in accrual volumes and rates are shown in the following table:

	Six Months Ended June 30,	
	2012	2011
Average accrual loan volume	\$ 337,866	\$ 324,656
Average interest rate on loans	4.24%	4.33%
Average interest rate spread	3.42%	3.36%

Average loan volume was higher in 2012, contributing an increase of \$249 thousand to the total change in net interest income, as shown in the first table above. The average interest rate spread was higher in 2012 which contributed to an increase of \$73 thousand in net interest income, as shown in the first table above. These increases to net interest income were offset by decreases in interest swap income of \$102 thousand and interest income on nonaccruals loans of \$44 thousand, as shown in the first table above.

Other income increased by \$503 thousand (37%) in 2012 as compared to 2011. This increase resulted primarily from \$393 thousand in refunds received in 2012 from the Farm Credit System Insurance Corporation related to the Farm Credit Insurance Fund. There were no such refunds received in 2011.

Other expense increased by \$106 thousand (3%) in 2012 as compared to 2011. Salaries and employee benefits expense increased by \$124 thousand (6%).

Loan Portfolio and Financial Condition

Loans originated by the Association increased by \$8.0 million (2%) from year-end. Loans purchased increased by \$8.1 million (75%) from year-end, and participations sold increased by \$4.6 million (9%). Loans held by the Association increased by \$11.6 million (3%) from year-end.

The loan portfolio continues to be concentrated in the dairy industry. Farm prices for dairy products decreased in the second quarter of 2012. Federal Order 1 prices for the second quarter of 2012 averaged \$17.21/cwt, down \$1.80/cwt (9%) from the first quarter of 2012, and down \$3.27/cwt (16%) from the second quarter of 2011. (Prices quoted do not include the effect of the Milk Income Loss Contract (MILC) program, which began December 1, 2001.) The change in prices received for dairy products has been accompanied by an increase in the cost of farm inputs, particularly purchased feed. The composite Feed Index published by the USDA was 252 for the second quarter of 2012, up 10 % from the first quarter of 2012, and up 11% from the second quarter of 2011. (Feed Index = 100 for 1990-1992)

Loan quality improved slightly and remained strong through the second quarter of 2012. Loans graded Substandard or lower were 3.3% of total loans at June 30, 2012, 1.6% improved from year-end. High risk assets comprised 1.7% of loans and related assets at June 30, 2012, 0.1% worse from year-end. (High risk assets include nonaccrual loans, accrual restructured loans, loans delinquent 90 days or more but not yet classified as nonaccrual, and other property owned.) Repayment performance remained satisfactory. Loans (both accrual and nonaccrual) delinquent 30 days or more were 1.4% at June 30, 2012, no change from year-end. The 12-month rolling average for this statistic was 1.4% at June 30, 2012, no change from year-end. There were no charge-offs, but recoveries of \$6 thousand in the first two quarters of 2012. There were no charge-offs, but recoveries of \$4 thousand in the first two quarters of 2011.

Management's Discussion & Analysis (cont.)

As discussed in the 2011 Annual Report to Shareholders, the Association declared a patronage distribution of \$3.664 million based on 2011 earnings, 100% in cash. This was paid on March 20, 2012.

Members' equity as a percentage of assets was 21.5% at June 30, 2012 as compared to 21.4% at year-end. The Association's permanent capital ratio was 20.6% at June 30, 2012, no change from year-end.

These financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

YANKEE FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEET
(Unaudited)

	June 30, 2012	December 31, 2011
	(in thousands)	
<u>ASSETS</u>		
Loans originated by the Association	\$ 389,735	\$ 381,731
Plus loans purchased	18,941	10,803
Less participations sold	<u>57,081</u>	<u>52,530</u>
Loans held by the Association	351,595	340,004
Less allowance for loan losses	<u>4,693</u>	<u>4,884</u>
Net loans	346,902	335,120
Cash	579	1,102
Accrued interest receivable	946	861
Patronage refunds due from CoBank, ACB	825	1,639
Investment in CoBank, ACB	13,456	13,300
Mission related investment	723	696
Premises and equipment, less accumulated depreciation	1,120	1,099
Other assets	<u>1,478</u>	<u>1,240</u>
Total assets	<u>\$ 366,029</u>	<u>\$ 355,057</u>
<u>LIABILITIES</u>		
Note payable to CoBank, ACB	\$ 283,981	\$ 273,562
Patronage distribution payable	1,696	3,664
Other liabilities	<u>1,709</u>	<u>2,015</u>
Total liabilities	<u>287,386</u>	<u>279,241</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	1,003	993
Unallocated surplus	79,623	76,798
Accumulated other comprehensive income	<u>(1,983)</u>	<u>(1,975)</u>
Total members' equity	<u>78,643</u>	<u>75,816</u>
Total liabilities and members' equity	<u>\$ 366,029</u>	<u>\$ 355,057</u>

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

YANKEE FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
<u>INTEREST INCOME</u>				
Loans	\$ 3,591	\$ 3,489	\$ 7,128	\$ 7,017
Total interest income	3,591	3,489	7,128	7,017
<u>INTEREST EXPENSE</u>				
Note payable to CoBank, ACB	555	572	1,111	1,179
Total interest expense	555	572	1,111	1,179
Net interest income	3,036	2,917	6,017	5,838
(Reversal of) provision for credit losses	(37)	-	(112)	-
Net interest income after provision for credit losses	3,073	2,917	6,129	5,838
<u>OTHER INCOME</u>				
Patronage refunds from CoBank, ACB	417	374	829	746
Fees for financial services	324	270	615	581
Loan fees and other income	418	31	431	45
Total other income	1,159	675	1,875	1,372
<u>OTHER EXPENSE</u>				
Salaries and employee benefits	1,038	998	2,094	1,970
Occupancy and equipment	77	74	166	143
Farm Credit Insurance Fund premium	30	36	59	75
Fees paid to Farm Credit Financial Partners, Inc.	238	239	476	479
Other expenses	389	406	681	703
Total other expense	1,772	1,753	3,476	3,370
Income before income taxes	2,460	1,839	4,528	3,840
Provision for income taxes	4	4	8	8
Net income	\$ 2,456	\$ 1,835	\$ 4,520	\$ 3,832
<u>OTHER COMPREHENSIVE (LOSS) INCOME</u>				
OCI related to swaps	2	(42)	(8)	(100)
Comprehensive income	\$ 2,458	\$ 1,793	\$ 4,512	\$ 3,732

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

YANKEE FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(Unaudited)

	Capital Stock and Participation Certificates	Surplus		Accumulated Other Comprehensive Income	Total Members' Equity
		Allocated	Unallocated (in thousands)		
Balance at December 31, 2010	\$ 1,005	\$ -	\$ 73,427	\$ (1,603)	\$ 72,829
Comprehensive income					
Net income	-	-	3,832	-	3,832
Other comprehensive income					
Net unrealized gains (losses) on interest rate swaps	-	-	-	(100)	(100)
Change in minimum pension liability	-	-	-	-	-
Total comprehensive income	<u>-</u>	<u>-</u>	<u>3,832</u>	<u>(100)</u>	<u>3,732</u>
Capital stock/PCs issued	60	-	-	-	60
Capital stock/PCs retired	(62)	-	-	-	(62)
Patronage distribution accrued					
Cash	-	-	(1,638)	-	(1,638)
Adjustment for Rounding	-	-	(1)	-	(1)
Balance at June 30, 2011	<u>\$ 1,003</u>	<u>\$ -</u>	<u>\$ 75,620</u>	<u>\$ (1,703)</u>	<u>\$ 74,920</u>
Balance at December 31, 2011	\$ 993	\$ -	\$ 76,798	\$ (1,975)	\$ 75,816
Comprehensive income					
Net income	-	-	4,520	-	4,520
Other comprehensive income					
Net unrealized gains (losses) on interest rate swaps	-	-	-	(8)	(8)
Change in minimum pension liability	-	-	-	-	-
Total comprehensive income	<u>-</u>	<u>-</u>	<u>4,520</u>	<u>(8)</u>	<u>4,512</u>
Capital stock/PCs issued	89	-	-	-	89
Capital stock/PCs retired	(79)	-	-	-	(79)
Patronage distribution accrued					
Cash	-	-	(1,696)	-	(1,696)
Adjustment for rounding	-	-	1	-	1
Balance at June 30, 2012	<u>\$ 1,003</u>	<u>\$ -</u>	<u>\$ 79,623</u>	<u>\$ (1,983)</u>	<u>\$ 78,643</u>

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

YANKEE FARM CREDIT, ACA

Notes To Consolidated Financial Statements

Second Quarter Ended June 30, 2012

(Dollars in thousands, except as noted)

(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Yankee Farm Credit, ACA (the Association) is a member-owned cooperative within the Farm Credit System. 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 and for the year ended December 31, 2011 are contained in the 2011 Annual Report to Shareholders. These unaudited second quarter 2012 financial statements should be read in conjunction with the 2011 Annual Report to Shareholders.

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. 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 that the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012 for non-public entities. The amendments should be applied retrospectively for all prior periods presented. The adoption will not impact the Association's financial condition or results of operation.

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. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. 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 did 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," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring is a troubled debt restructuring, 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. The guidance is effective for nonpublic entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance was not material to the financial condition or results of operations.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to generally accepted accounting principles and prevailing practices within the banking industry. The results of operations for the three month period ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows:

	Value at	
	June 30, 2012	December 31, 2011
Long-term farm mortgage	\$ 131,750	\$ 129,425
Country home	1,623	1,567
Farm related business	55,660	41,553
Production and intermediate term	162,562	167,459
Total loans	<u>\$ 351,595</u>	<u>\$ 340,004</u>

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. All of the Association's loan purchases and sales are with other Farm Credit institutions. The following table presents information regarding the balances of participations purchased and sold at June 30, 2012:

	Participations Purchased	Participations Sold
Long-term farm mortgage	\$ 996	\$ 5,157
Farm related business	17,547	21,352
Production and intermediate term	398	30,572
Total loans	<u>\$ 18,941</u>	<u>\$ 57,081</u>

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

	Value at	
	June 30, 2012	December 31, 2011
<u>Nonaccrual Loans:</u>		
Long-term farm mortgage	\$ 3,196	\$ 3,502
Farm related business	723	762
Production and intermediate term	1,080	925
Total nonaccrual loans	<u>\$ 4,999</u>	<u>\$ 5,189</u>
<u>Restructured Accrual Loans:</u>		
Long-term farm mortgage	\$ 923	\$ 196
Total restructured accrual loans	<u>\$ 923</u>	<u>\$ 196</u>
<u>Accrual Loans ≥ 90 Days Past Due:</u>		
Production and intermediate term	\$ -	\$ -
Total accrual loans ≥ 90 days past due	<u>\$ 0</u>	<u>\$ 0</u>
Total nonperforming assets	<u>\$ 5,922</u>	<u>\$ 5,385</u>

The following table provides an age analysis of past due loans (including accrued interest) as of June 30, 2012:

	30 – 89 Days	Past Due ≥ 90 Days	Total Loans
Long-term farm mortgage	\$ 1,013	\$ 1,865	\$ 2,878
Farm related business	215	594	809
Production and intermediate term	770	409	1,179
Total impaired loans	<u>\$ 1,998</u>	<u>\$ 2,868</u>	<u>\$ 4,866</u>

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:

	June 30, 2012	December 31, 2011
Long-term farm mortgage		
Acceptable	34.2%	34.2%
OAEM*	1.0%	1.3%
Substandard/doubtful	2.3%	2.5%
	<u>37.5%</u>	<u>38.0%</u>
Country home		
Acceptable	0.4%	0.4%
OAEM*	0.1%	0.1%
Substandard/doubtful	0.0%	0.0%
	<u>0.5%</u>	<u>0.5%</u>
Farm related business		
Acceptable	14.9%	11.9%
OAEM*	0.7%	0.2%
Substandard/doubtful	0.2%	0.2%
	<u>15.8%</u>	<u>12.3%</u>
Production and intermediate term		
Acceptable	40.9%	43.6%
OAEM*	4.5%	3.4%
Substandard/doubtful	0.8%	2.2%
	<u>46.2%</u>	<u>49.2%</u>
Total Loans		
Acceptable	90.4%	90.1%
OAEM*	6.3%	5.0%
Substandard/doubtful	3.3%	4.9%
	<u>100.0%</u>	<u>100.0%</u>

*Other Assets Especially Mentioned

The following tables present information on impaired loans and related amounts in the Allowance for Loan Losses:

	At June 30, 2012		
	Recorded Investment	Unpaid Principal Balance*	Related Allowance
Impaired Loans with a related allowance for loan losses:			
Long-term farm mortgage	\$ 4,078	\$ 4,578	\$ 523
Farm related business	723	836	37
Production and intermediate term	1,021	1,255	98
Total	<u>\$ 5,822</u>	<u>\$ 6,669</u>	<u>\$ 658</u>
Impaired Loans with no related allowance for loan losses:			
Long-term farm mortgage	\$ 41	\$ 110	\$ -
Production and intermediate term	59	144	-
Total	<u>\$ 100</u>	<u>\$ 254</u>	<u>\$ -</u>
Total Impaired Loans:			
Long-term farm mortgage	\$ 4,119	\$ 4,688	\$ 523
Farm related business	723	836	37
Production and intermediate term	1,080	1,399	98
Total	<u>\$ 5,922</u>	<u>\$ 6,923</u>	<u>\$ 658</u>

	At December 31, 2011		
	Recorded Investment	Unpaid Principal Balance*	Related Allowance
Impaired Loans with a related allowance for loan losses:			
Long-term farm mortgage	\$ 3,653	\$ 4,059	\$ 495
Farm related business	762	848	36
Production and intermediate term	865	1,066	109
Total	<u>\$ 5,280</u>	<u>\$ 5,973</u>	<u>\$ 640</u>
Impaired Loans with no related allowance for loan losses:			
Long-term farm mortgage	\$ 46	\$ 111	\$ -
Production and intermediate term	60	142	-
Total	<u>\$ 106</u>	<u>\$ 253</u>	<u>\$ -</u>
Total Impaired Loans:			
Long-term farm mortgage	\$ 3,698	\$ 4,170	\$ 495
Farm related business	762	848	36
Production and intermediate term	925	1,208	109
Total	<u>\$ 5,385</u>	<u>\$ 6,226</u>	<u>\$ 640</u>

*Unpaid principal balance represents the borrower's contractual balance of the loan.

The following tables present additional information on impaired loans:

	Three Months Ended			
	June 30, 2012		June 30, 2011	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired Loans with a related allowance for loan losses:				
Long-term farm mortgage	\$ 4,106	\$ 12	\$ 3,450	\$ 5
Farm related business	732	-	823	-
Production and intermediate term	1,049	1	1,011	-
Total	<u>\$ 5,887</u>	<u>\$ 13</u>	<u>\$ 5,284</u>	<u>\$ 5</u>
Impaired Loans with no related allowance for loan losses:				
Long-term farm mortgage	\$ 43	\$ -	\$ 52	\$ -
Production and intermediate term	59	-	64	-
Total	<u>\$ 102</u>	<u>\$ -</u>	<u>\$ 116</u>	<u>\$ -</u>
Total Impaired Loans:				
Long-term farm mortgage	\$ 4,149	\$ 12	\$ 3,502	\$ 5
Farm related business	732	-	823	-
Production and intermediate term	1,108	1	1,075	-
Total	<u>\$ 5,989</u>	<u>\$ 13</u>	<u>\$ 5,400</u>	<u>\$ 5</u>

	Six Months Ended			
	June 30, 2012		June 30, 2011	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired Loans with a related allowance for loan losses:				
Long-term farm mortgage	\$ 4,181	\$ 15	\$ 3,787	\$ 33
Farm related business	740	-	857	-
Production and intermediate term	1,074	1	1,175	19
Total	<u>\$ 5,995</u>	<u>\$ 16</u>	<u>\$ 5,819</u>	<u>\$ 52</u>
Impaired Loans with no related allowance for loan losses:				
Long-term farm mortgage	\$ 44	\$ -	\$ 52	\$ -
Production and intermediate term	58	-	68	-
Total	<u>\$ 102</u>	<u>\$ -</u>	<u>\$ 120</u>	<u>\$ -</u>
Total Impaired Loans:				
Long-term farm mortgage	\$ 4,225	\$ 15	\$ 3,839	\$ 33
Farm related business	740	-	857	-
Production and intermediate term	1,132	1	1,243	19
Total	<u>\$ 6,097</u>	<u>\$ 16</u>	<u>\$ 5,939</u>	<u>\$ 52</u>

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

	Long-term Farm Mortgage	Country Home	Farm Related Business	Production & Intermediate Term	Total
Allowance for Loan Losses:					
Balance at December 31, 2011	\$ 2,818	\$ 18	\$ 240	\$ 1,808	\$ 4,884
Charge-offs	-	-	-	-	-
Recoveries	-	-	6	-	6
(Reversal of) provision for loan losses	(34)	8	147	(318)	(197)
Balance at June 30, 2012	<u>\$ 2,784</u>	<u>\$ 26</u>	<u>\$ 393</u>	<u>\$ 1,490</u>	<u>\$ 4,693</u>
Ending Balance: individually evaluated for impairment	\$ 490	\$ -	\$ 37	\$ 98	\$ 625
Ending Balance: collectively evaluated for impairment	<u>2,294</u>	<u>26</u>	<u>356</u>	<u>1,392</u>	<u>4,068</u>
Balance at June 30, 2012	<u>\$ 2,784</u>	<u>\$ 26</u>	<u>\$ 393</u>	<u>\$ 1,490</u>	<u>\$ 4,693</u>
Recorded Investment in Loans Outstanding:					
Ending Balance for loans individually evaluated for impairment	\$ 4,119	\$ -	\$ 723	\$ 1,080	\$ 5,922
Ending Balance for loans collectively evaluated for impairment	<u>127,631</u>	<u>1,623</u>	<u>54,937</u>	<u>161,482</u>	<u>345,673</u>
Ending Balance at June 30, 2012	<u>\$ 131,750</u>	<u>\$ 1,623</u>	<u>\$ 55,660</u>	<u>\$ 162,562</u>	<u>\$ 351,595</u>

In 2011, we revised our methodology for determining the Allowance for Credit Losses. The new methodology takes into consideration potential losses related to unfunded commitments, and as a result, we have established a separate Reserve for Unfunded Commitments, which is included in Other Liabilities on the Association's balance sheet.

The provision for the Reserve for Unfunded Commitments is part of the Provision for Credit Losses on the income statement. The components of the Provision for Credit Losses are presented in the table below:

	Six Months Ended June 30,	
	2012	2011
(Reversal of) provision for loan losses	\$ (196)	\$ -
Provision for unfunded commitments	84	-
Total (reversal of) provision for credit losses	<u>\$ (112)</u>	<u>\$ -</u>

The following table presents additional information regarding troubled debt restructurings through June 30, 2012.

	Six Months Ended June 30, 2012	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Long-term farm mortgage	\$ 731	\$ 731

*Pre-modification represents the recorded investment prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The following table provides information on outstanding loans restructured in troubled debt restructurings as of June 30, 2012:

	Loans Modified as TDRs	TDRs in Nonaccrual Status
Long-term farm mortgage	\$ 1,056	\$ 133
Production and intermediate term	23	23
Total	<u>\$ 1,079</u>	<u>\$ 156</u>

There were no additional commitments to lend additional funds to members whose loans were classified as troubled debts restructured at June 30, 2012.

NOTE 3 - CAPITAL

Please see the 2011 Annual Report to Shareholders, particularly Note 7 to the Financial Statements, for a description of the Association's capitalization policies. The Association's requirement for purchased equities (stock and participation certificates) is presently the legal minimum of 2.0% of the loan with a cap of \$1 thousand.

The patronage distribution for 2011 was \$3.664 million and was distributed 100% in cash on March 20, 2012. A patronage distribution program is also in effect for 2012. The amount of the patronage distribution for 2012 will depend on financial results for the year as a whole and is therefore not known with certainty at this time. However, management estimates that the patronage distribution attributable to the first two quarters of 2012 is approximately \$1.696 million. Management believes it is probable that the 2012 patronage distribution will be paid 100% in cash. Therefore, the accompanying financial statements show an interim accrual at the end of the first two quarters of 2012 for patronage distribution payable of \$1.696 million. The corresponding interim accrual at the end of the second quarter of 2011 for patronage distribution payable was \$1.638 million (also 100% cash).

The Association's regulatory capital ratios were:

	Value At		Regulatory Minimum
	June 30, 2012	December 31, 2011	
Core surplus ratio	20.1%	20.3%	3.5%
Total surplus ratio	20.3%	20.3%	7.0%
Permanent capital ratio	20.6%	20.6%	7.0%

Additionally, for 2012, the Association has established an internal minimum of 16.0% for the permanent capital ratio and a goal of 20.5%. The ratio at June 30, 2012, as indicated above, is not indicative of the full year.

NOTE 4 - INCOME TAXES

Please see the 2011 Annual Report to Shareholders, particularly Note 8 to the Financial Statements, for a description of the Association's deferred tax assets and liabilities and the corresponding valuation allowance. There were no significant changes in the composition or valuation of tax assets/liabilities during the first two quarters of 2012.

NOTE 5 - 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. Please see the 2011 Annual Report to Shareholders, particularly Note 2L and Note 11 to the Financial Statements, for a more complete description.

Assets measured at a fair value on a recurring basis at June 30, 2012 are summarized below:

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
<u>Assets:</u>			
Interest Rate Swaps	\$ -	\$ -	\$ -
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Assets measured at a fair value on a recurring basis at December 31, 2011 are summarized below:

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Interest Rate Swaps	\$ -	\$ 14	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 14</u>	<u>\$ -</u>

Assets measured at a fair value on a non-recurring basis at June 30, 2012 are summarized below:

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Nonaccrual loans	\$ -	\$ -	\$ 4,999
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,999</u>

Assets measured at a fair value on a non-recurring basis at December 31, 2011 are summarized below:

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Nonaccrual loans	\$ -	\$ -	\$ 5,189
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,189</u>

There were no liabilities measured at fair value on a recurring or non-recurring basis at June 30, 2012.

As more fully discussed in Note 2L and Note 11 of the 2011 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Associations' assets.

Derivatives: The only derivatives held by the Association are our interest rate swaps, which meet the definition of Level 2 financial instruments. The derivative positions are valued using internally developed models that use as their basis readily observable market parameters such as benchmark interest rate curves, volatility and other inputs that are observable directly or indirectly in the marketplace.

Nonaccrual Loans: For certain loans evaluated as nonaccrual, the fair value is based upon the underlying collateral, since the loans are collateral dependent loans. These loans are generally classified as Level 3 assets.

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Balance Sheet for each of the fair value hierarchy values are summarized as follows:

	June 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Loans, net	\$ 346,902	\$ 349,669	\$ 335,120	\$ 338,757
Cash	579	579	1,102	1,102
Interest rate swaps	-	-	14	14
Financial Liabilities:				
Notes payable to CoBank, ACB	\$ 283,981	\$ 284,238	\$ 273,562	\$ 272,891
Interest rate swaps	-	-	-	-

A description of the methods and assumptions used to estimate the fair value of the Association's financial instruments for which it is practicable to estimate that value follows:

Loans: Fair value is estimated by discounting the expected future cash flows using the Association's and/or CoBank's current interest rates at which similar loans would be made to borrowers with similar credit risk. As discount rates are based on the Association's current loan rates as well as management estimates, management

has no basis to determine whether the estimated fair values presented would be indicative of assumptions and adjustments that a purchaser of the Association's loans would see in an actual sale, which could be less.

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

Interest Rate Swaps: Interest rate swaps are carried at their estimated fair value, calculated as the present value of estimated future cash flows. Depending on the position of the swap, the fair value may either be an asset or a liability.

Note Payable to CoBank, ACB: The note payable is segregated into pricing pools according to the types and terms of the loans (or other assets) which it funds. Fair value of the note payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the note is equal to the principal payments on the Association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS

The Association enters into derivative financial instruments known as "received fixed" interest rate swaps. The counterparty to the Association's swaps is CoBank. Please see the 2011 Annual Report to Shareholders, particularly Note 2K and Note 15 to the Financial Statements, for a more complete description.

The following tables show the impact of these derivatives on the financial statements as of or for the quarter end:

	Value at	
	June 30, 2012	Dec 31, 2011
<u>Balance sheet:</u>		
Accrued interest receivable	\$ -	\$ 3
Accrued interest payable (included in other liabilities)	-	-
Positive fair values (included in other assets)	-	14
Negative fair values (included in other liabilities)	-	-
Accumulated other comprehensive income	-	8
	Six Months Ended June 30,	
	2012	2011
<u>Statement of income:</u>		
(Decreased) increased interest expense	\$ (8)	\$ (110)
<u>Other comprehensive income:</u>		
Net unrealized gains (losses) on Interest rate swaps	\$ (8)	\$ (100)

As of June 2012, the Association has suspended the current interest rate swap program.

NOTE 7 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through August 9, 2012, which is the date the financial statements were available to be issued.

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