STILL GROWING STRONG

2011 Annual Report

American AgCredit

MONEY FOR AGRICULTURE

Key Financial Data

Year Ended December 31, ($ in thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Net Income	$180,656	$81,376	$49,384	$60,309	$60,212
Dividends Declared	$34,762	$26,329	$15,821	$14,721	$19,817
Dividends as % of Net Income	19.24%	32.35%	32.04%	24.41%	32.91%
Loan Volume	$4,391,248	$4,574,439	$4,747,370	$3,783,018	$3,240,167
Return on Average Assets	3.78%	1.69%	1.24%	1.64%	1.88%
Members' Equity as % of Total Assets	24.60%	21.55%	19.56%	18.76%	19.40%




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To Our Shareholders

The past three years have been among the most volatile and uncertain in recent history. Input costs and commodity prices continue to swing significantly. The highs are higher, the lows are lower, and the time frames in which they move are shorter.

This level of uncertainty is not only permeating our business but also our customers' businesses and the whole economy. Whether you're a producer, processor, or Farm Credit association, strong capital and financial flexibility are needed to position for these new realities.

American AgCredit prides itself not only on a solid capital foundation and prudent financial management, but also on a diverse and capable customer base whose strong personal values and work ethic have made agriculture a bulwark in the stormy economic conditions of our day. Your association's strength lies in its diversity – the wide range of commodities financed, the broad geographical area served, and the range of borrower types, from small family farms to major agricultural corporations. This diversity fosters innovative practices and promotes superior customer service to meet the needs of all our borrower-owners.

Diversity also breeds success, and 2011 was another successful year for your association. With record earnings, the Association was able to declare the highest customer dividend in its history, $34.7 million that will be returned to our customers as thanks for doing business with us. This dividend represents a rebate of one percent off of a borrower's stated loan rate. Amidst economic conditions that have most commercial banks looking for creative new ways to assess more fees, your association is giving you money to put back in your pocket.

Diversity was a driving factor in our merger with Farm Credit Services of the Mountain Plains, which closed on January 1, 2012. Bringing this strong, well-capitalized association into the American AgCredit fold further expands the Association's lending territory into the states of Colorado and New Mexico and adds a wide range of commodities and borrowers who will help mitigate the Association's risk profile. As we position ourselves to meet the challenges of the future, having an infrastructure capable of meeting the needs of the entire breadth of agriculture will be our greatest asset.

Earnings for the year included a tax-free stock recapitalization distribution of $75.2 million as a result of the merger between CoBank and U.S. AgBank and patronage dividends from AgBank totaling $32.2 million. These transactions are further explained in the Management's Discussion and Analysis section of this report, as are other important financial events that occurred throughout the year. Although earnings for the year were favorably impacted by several unusual transactions, our core earnings remain strong and we continue to strengthen our capital position, which, in turn, allows us to pay robust dividends to our customers.

We are committed to maintaining transparency in our financial reporting; we believe that doing so is essential to maintaining the trust and confidence of our customer-owners.

As always, we are deeply grateful for your business and support this past year. We look forward to many more years of helping American agriculture grow.

Sincerely,

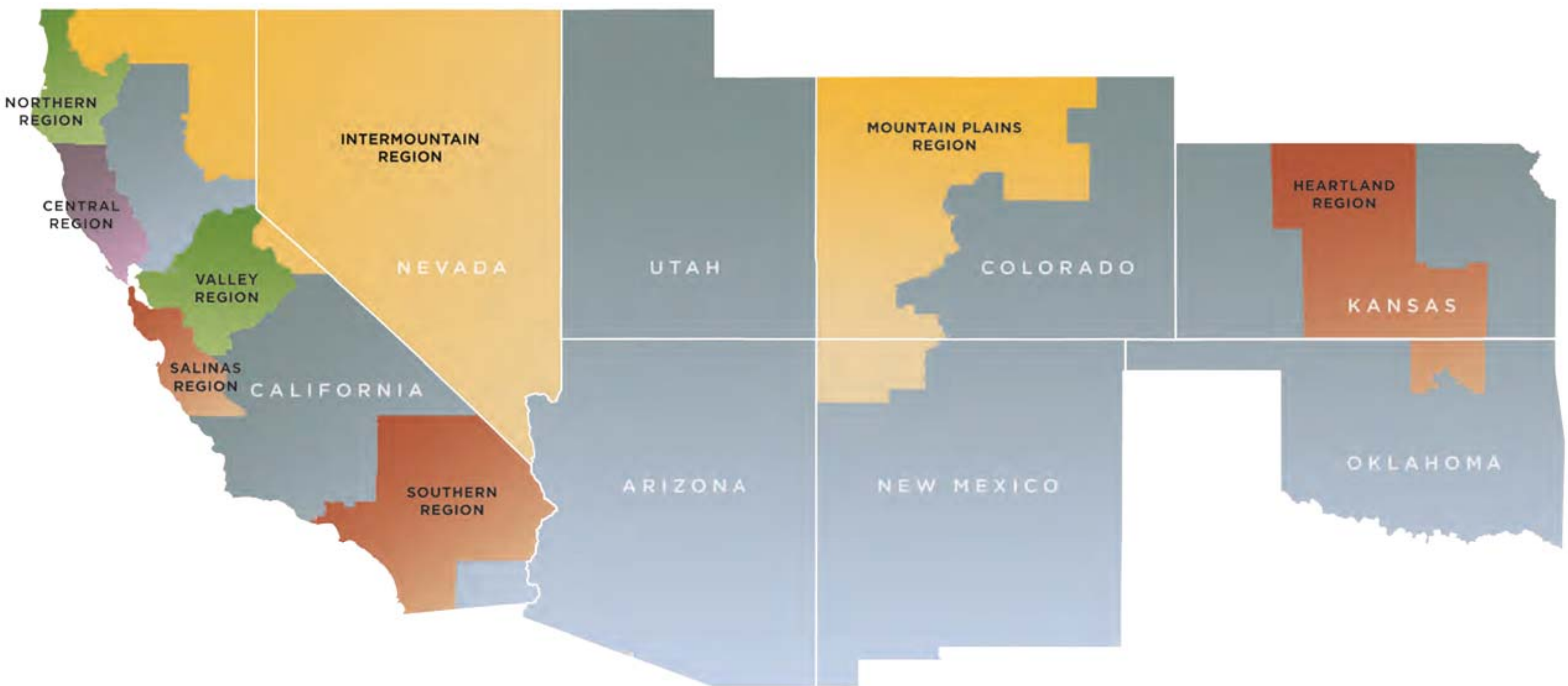
Dave Santos
Chairman

Ron Carli
Chief Executive Officer

March 1, 2012

Lending Regions

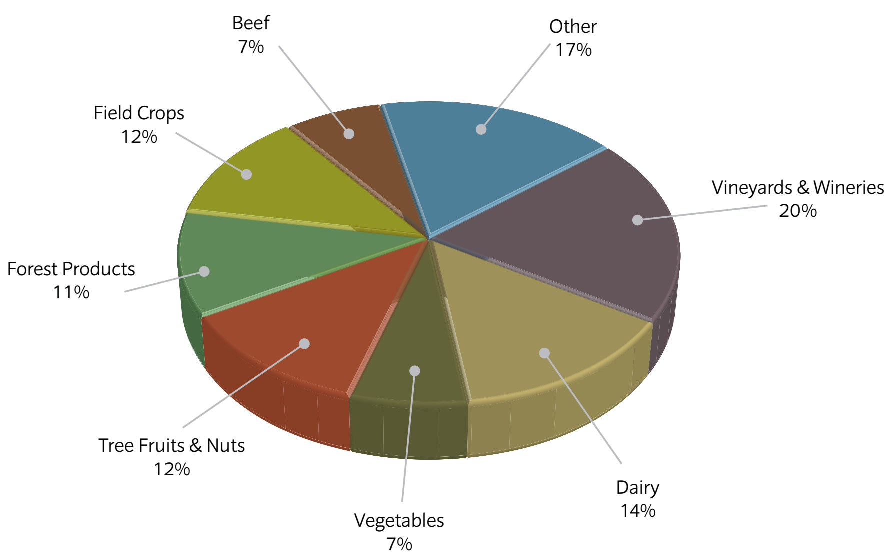
AS OF JANUARY 1, 2012



Financial Highlights

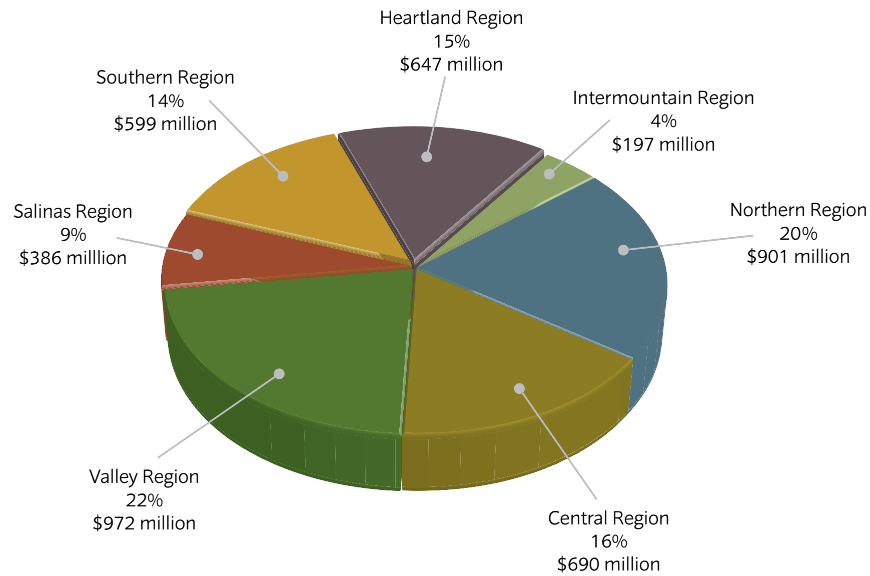
Commodities Financed

With a well-balanced mix of commodities, the Association's risk of a severe downturn in any one commodity producing material stress on the entire portfolio is minimized. Our eggs are well placed in several baskets.



Geographical Loans

A broad geographical dispersion of loans assures that the risk of regional events, such as drought or natural disasters, does not materially affect the Association as a whole. Each region is managed according to the unique characteristics of the geography and agriculture within its territory. One size does not fit all, and the Association accommodates those differences.



Report of Management

The Association's financial statements are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. In the opinion of management, the accompanying financial statements fairly present the financial condition and results of operations of the Association, in conformity with generally accepted accounting principles in the United States of America. Other financial information included in this Annual Report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on 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 must be related to the benefits derived. To monitor compliance, the Association's internal auditors and review staff perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as needed. The financial statements are audited by PricewaterhouseCoopers LLP, independent auditors, who consider internal controls in connection with the audit of the financial statements in accordance with generally accepted auditing standards. Their report is located on page 24. The Association is also examined by the Farm Credit Administration (FCA), regulator of the Farm Credit System.

The Association's Board of Directors, which is composed of directors who are not employees, has overall responsibility for the Association's system of internal control and financial reporting. The Board of Directors meets periodically with management, FCA, outside consulting firms, and the internal accountants and auditors to review the manner in which each of these groups performs their responsibilities and to carry out the Board's oversight role with respect to auditing, internal controls, and financial reporting matters. These internal auditors, independent external auditors, and regulators also have access to the Board of Directors and its individual members at any time.

The undersigned certify that the 2011 Annual Report has been 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 our knowledge and belief.

Dave Santos
Chairman

Ron Carli
Chief Executive Officer

Chris B. Call
Chief Financial Officer

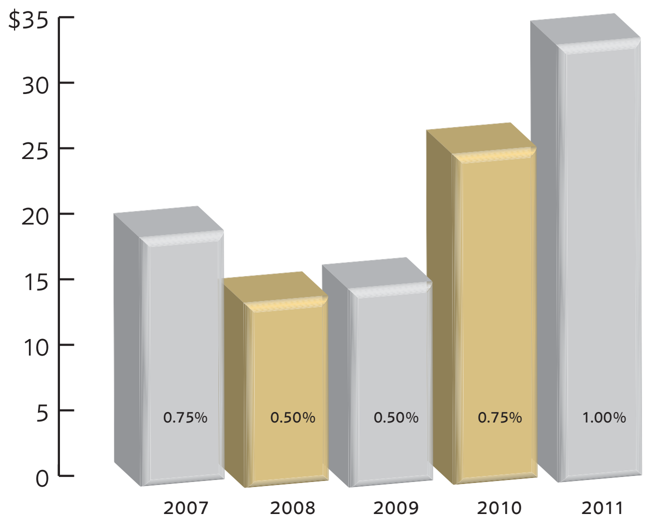
March 1, 2012

Dividend Report

Since 2005, American AgCredit has returned more than $163 million in dividends to its customers.

One of the most important benefits of being an American AgCredit member-borrower is that you stand to share in the Association's profits. Most businesses return company profits to investors, not their customers. However, as a member-owned Association, American AgCredit returns its profits to its customers, the people who patronize its services. That's the cooperative way of doing business.

Dividend refunds help your Association reduce its tax expense and maintain a strong capital position. This helps the entire membership because an association with a strong capital position is better able to offer competitive interest rates and ensure a constant supply of credit to farmers and ranchers within the Association's territory.



Dividends declared (in millions) and effective reduction of customer loan rates

Audit Committee Report

The Audit Committee (Committee) is composed of six members of the Board of Directors. In 2011 six Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities.

In addition, the Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as the Association's independent auditors for 2011. The Committee's responsibilities are described more fully in the Association's Internal Control Policy and the Audit Committee Charter.

The fees paid for professional services rendered for the Association by its independent auditors, PwC, during 2011 were $214,000 for audit services, $16,000 for tax services, and $45,000 for merger-related services.

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and audited financial statements for the year ended December 31, 2011 (the "Audited Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance), and both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee discusses with PwC its independence from the Association. The Committee also reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditors' independence. The Committee has discussed with management and PwC such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Audited Consolidated Financial Statements in the Association's 2011 Annual Report.

Larry Solari, *Audit Committee Chairman*

March 1, 2012

2011 Audit Committee Members

Eric Allen • James Boyd • Peter Bulthius • Greg Ringler • Larry Solari • Thomas Teixeira

Report on Internal Control

OVER FINANCIAL REPORTING

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Boards of Directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2011. In making the assessment, management used the framework in Internal Control – Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the COSO criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2011.

Ron Carli
Chief Executive Officer

Chris B. Call
Chief Financial Officer

March 1, 2012

Five-Year Summary

OF SELECTED FINANCIAL DATA

December 31, (In thousands)	**2011**	**2010**	**2009***	**2008**	**2007**
BALANCE SHEET DATA					
Loans	$4,391,248	$4,574,439	$4,747,370	$3,783,018	$3,240,167
Less: allowance for loan losses	(12,302)	(18,227)	(12,293)	(8,843)	(9,447)
Net loans	**4,378,946**	**4,556,212**	**4,735,077**	**3,774,175**	**3,230,720**
Investment in and receivable from AgBank	207,278	119,327	119,327	99,143	99,143
Accrued interest receivable	37,592	42,167	44,792	31,303	36,164
Foreclosed assets	11,227	25,739	4,626	162	162
Other assets	83,680	82,800	79,352	45,742	45,989
Total assets	**$4,718,723**	**$4,826,245**	**$4,983,174**	**$3,950,525**	**$3,412,178**
Obligations with maturities of one year or less	$3,557,815	$3,786,356	$4,007,495	$3,208,418	$2,749,896
Obligations with maturities greater than one year	–	–	781	924	288
Total liabilities	**3,557,815**	**3,786,356**	**4,008,276**	**3,209,342**	**2,750,184**
Capital stock and participation certificates	111,113	132,328	123,008	128,656	90,931
Unallocated retained earnings	845,873	700,997	646,445	613,451	571,351
Additional paid in capital	206,948	206,226	206,226	–	–
Accumulated other comprehensive loss	(3,026)	338	(781)	(924)	(288)
Total members' equity	**1,160,908**	**1,039,889**	**974,898**	**741,183**	**661,994**
Total liabilities and members' equity	**$4,718,723**	**$4,826,245**	**$4,983,174**	**$3,950,525**	**$3,412,178**

Year Ended December 31,	**2011**	**2010**	**2009****	**2008**	**2007**
STATEMENT OF INCOME DATA					
Net interest income	$128,245	$134,702	$107,396	$86,472	$90,085
Reversal of /(Provision for) loan losses	5,523	(11,000)	(15,714)	5,163	(4,755)
Non-interest expense, net	52,986	(42,695)	(45,199)	(31,500)	(25,877)
(Provision) /Benefit from income taxes	(6,098)	369	2,901	174	759
Net income	**$180,656**	**$81,376**	**$49,384**	**$60,309**	**$60,212**

*2009 data includes the combined assets and liabilities of American AgCredit and Farm Credit of the Heartland, which merged on November 30, 2009. Information presented prior to 2009 includes only American AgCredit data. See Note 2 to the Consolidated Financial Statements for further discussion.

**2009 data includes the results of operations for American AgCredit alone for the months January to November and the combined results of American AgCredit and Farm Credit of the Heartland for the month of December. For years prior to 2009, only American AgCredit data is presented. See Note 2 to the Consolidated Financial Statements for further discussion.

Key Financial Ratios

For the Year Ended December 31,	2011	2010	2009	2008	2007
Return on average assets	3.78%	1.69%	1.24%	1.64%	1.88%
Return on average members' equity	16.41%	7.92%	6.42%	8.59%	9.62%
Net interest income as a percentage of average earning assets	2.86%	2.89%	2.79%	2.40%	2.85%
Net charge-offs /(recoveries) as a percentage of average loans	(0.01)%	0.11%	(0.02)%	(0.02)%	0.03%
At Year End					
Members' common equity as a percentage of total assets	22.38%	18.94%	17.23%	15.58%	16.83%
Members' total equity as a percentage of total assets	24.60%	21.55%	19.56%	18.76%	19.40%
Debt as a ratio to members' equity	3.06:1	3.64:1	4.11:1	4.33:1	4.15:1
Allowance for loan losses as a percentage of loans	0.28%	0.40%	0.26%	0.23%	0.29%
Permanent capital ratio	21.57%	19.38%	16.27%	16.79%	17.87%
Total surplus ratio	19.01%	16.66%	13.78%	13.39%	14.84%
Core surplus ratio	17.84%	15.88%	13.59%	12.82%	13.55%
Other Information					
Cash patronage distributions declared (in thousands)	$34,762	$26,329	$15,821	$14,721	$19,817
Loans serviced for others (in millions)	$3,909	$4,043	$4,331	$4,440	$3,763

Management's Discussion & Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following commentary explains the principal aspects of the financial condition and results of operations of American AgCredit ("the Association") as of December 31, 2011, with comparisons to prior years. The commentary includes significant known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact, our financial condition and results of operations. The accompanying financial statements were prepared under the oversight of the Audit Committee of the Board. This commentary should be read with the accompanying financial statements and the related notes appearing in this report. The Association's past financial results may not be indicative of future performance.

Certain information included in this discussion constitutes forward-looking statements and information that is based on management's belief, as well as certain assumptions made by and information currently available to management. When used in this discussion, the words "anticipate," "project," "expect," "believe," and similar expressions are intended to identify forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations and projections will prove to be correct. Such forward-looking statements are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks materialize, or should such underlying assumptions prove to be incorrect, actual results may vary materially from those anticipated, projected, or expected. Among key factors that may have a direct bearing on operating results are fluctuations in the economy; the relative strengths and weaknesses in the agricultural credit sectors and in the real estate market; the actions taken by the Federal Reserve for the purpose of managing the economy; the continued growth of the agricultural market consistent with recent historical experience; the continued influx of government payments to borrowers; and Farm Credit Administration (FCA) mandates and rulings.

BUSINESS OVERVIEW

The Association is one of the more than 85 institutions of the Farm Credit System, which was created by Congress in 1916 and has served agricultural producers for over 95 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products, and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The System is regulated by the FCA, which is an independent "safety and soundness" regulator.

The Association obtained funding from U.S. AgBank, FCB (AgBank). AgBank is a cooperative of which the Association is a member. AgBank and its related associations are referred to as the "District."

In December 2010, the boards of directors of AgBank, our funding bank, and CoBank, ACB (CoBank) approved a Letter of Intent to pursue a merger. In March 2011, following unanimous votes by the boards of both banks, a merger application was submitted to the Farm Credit Administration (FCA), the Farm Credit System regulator. On June 22, 2011, the FCA granted preliminary approval of the merger, subject to certain conditions. On September 8, 2011, AgBank and CoBank announced that their voting shareholders approved the proposed plan of merger between the two banks. Final approval from the FCA was received in December 2011. The merger was effective on January 1, 2012. Beginning January 1, 2012, we receive our funding from the merged bank. In the following disclosure, our funding bank both prior to and after the merger will be referred to as "the Bank." The merged bank will do business under the CoBank name and be headquartered just outside Denver, Colorado, but will maintain a presence and operations in Wichita and Sacramento. Robert B. Engel, CoBank's president and chief executive officer, is the chief executive of the merged bank. CoBank had total assets of $63.3 billion and capital of $4.9 billion at December 31, 2011.

The Association is materially affected by AgBank's financial condition and results of operations. The CoBank and AgBank Annual Report to Shareholders, the CoBank and AgBank District Annual Report to Shareholders, and the CoBank and AgBank District's quarterly reports are on CoBank's website, www.CoBank.com, or may be obtained at no charge by calling (800) 322-9880 or mailing to CoBank, 245 N. Waco, Wichita, KS 67202. Association Annual Reports are available on the Association's website within 75 days of year-end, and quarterly reports are available on the Association's website within 40 days of the calendar quarter-end.

As a cooperative, the Association is owned by the members it serves. The territory served extends across a diverse agricultural region that includes parts of California, Kansas and Oklahoma as well as the entire state of Nevada, and, as of January 1, 2012, parts of Colorado and New Mexico. The Association makes short- and intermediate-term loans for agricultural production or operating purposes and long-term real estate mortgage loans. To meet the diverse needs of its borrowers, the Association is structured along geographical and business industry lines that allow for specialized transactions that are unique to various types of customers. The Association's success is highly dependent upon the level of satisfaction it can provide to its borrowers. Business priorities are to increase present levels of loan volume, serve the needs of all eligible customers, build capital, increase profitability, and invest in the people and technological resources that will ensure future success.

ECONOMIC OVERVIEW

For many years, agriculture has experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values, and, to a lesser extent, government support and multi-peril insurance programs. These favorable conditions positively impacted our financial results. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. In the past two years, conditions in the general and agricultural economy have been less favorable with the recent instability in the global markets and volatility in production costs. The dairy and building products industries have been particularly affected. The negative impact from these less favorable conditions is somewhat lessened by geographic and commodity diversification and the generally strong financial condition of our agricultural borrowers. However, borrowers who are more reliant on off-farm income sources may be more adversely impacted due to the weakened general economy.

During 2011, economic conditions in our territory generally followed those of the national economy. Property values declined, consumer demand fell, and operating costs remained stubbornly high. High unemployment dampened consumer spending and limited the demand for agricultural products. The Association has a substantial portion of its loan portfolio with dairy operators who struggled with low milk prices and high input costs for most of the year. Although milk prices rebounded later in the year, overproduction and high herd counts create uncertainty about the sustainability of break-even prices. Other commodities financed by the Association have, in general, weathered the economic downturn with limited adverse effects.

FINANCIAL OVERVIEW

Earnings: The Association produced after-tax earnings of $180.7 million in 2011. This compares to earnings of $81.4 million in 2010. The dramatic increase in earnings in 2011 was primarily caused by the one-time recapitalization transaction, which is described in the non-interest income discussion on page 15. This transaction accounts for $75.2 million of 2011 total earnings. In addition, AgBank distributed both its 2010 and 2011 patronage refunds during the 2011 fiscal year. In prior years, only one distribution was made. The additional refund for 2011 accounts for $12.7 million of the year's income. Adjusting for these AgBank merger-related transactions, net income for 2011 would have been $92.7 million, which compares more directly to 2010's net income of $81.4 million. The additional increase in earnings for the year was a result of the factors described in the following pages.

The major components of change in net income over the past two years are summarized below and discussed in the following pages.

(In thousands)	2011 vs. 2010	2010 vs. 2009
Net income, prior year	$81,376	$49,384
Increase /(Decrease) in interest income	(22,720)	43,163
Decrease /(Increase) in interest expense	16,263	(15,857)
Increase /(Decrease) in net interest income	(6,457)	27,306
Decrease in provision for loan losses	16,523	4,714
Increase in non-interest income	101,406	15,182
Increase in other expense	(5,725)	(12,678)
Decrease in income tax benefit	(6,467)	(2,532)
Increase in net income	**99,280**	**31,992**
Net income, current year	**$180,656**	**$81,376**

Net Interest Income: The chart below provides an analysis of the individual components of the change in net interest income for 2011 and 2010.

(In thousands)	2011 vs. 2010	2010 vs. 2009
Net interest income, prior year	$134,702	$107,396
Increase /(Decrease) in net interest income due to changes in:		
Interest rates earned and paid	(1,045)	762
Volume of accruing assets/interest-bearing liabilities	(6,259)	27,585
Interest income on nonaccrual loans	847	(1,041)
Increase /(Decrease) in net interest income	**(6,457)**	**27,306**
Net interest income, current year	**$128,245**	**$134,702**

Net interest income decreased 5% in 2011 largely as the result of declining loan volume. Accrual loans decreased by $195 million in 2011 as loan demand eased. Poor economic conditions during the past year have hampered new capital investments by the Association's customer base, which has resulted in limited new lending opportunities.

Net interest income rose 26% in 2010 primarily due to the increase in average volume of interest-bearing net assets as a result of the merger with Farm Credit of the Heartland in November 2009. This added volume in net earning assets accounted for most of the total increase in net interest income.

	2011	2010	2011 (Decrease) / Increase
Average rate on earning assets	5.05%	5.24%	(0.19)%
Average rate on interest-bearing liabilities	2.50%	2.72%	(0.22)%
Average interest rate spread	2.55%	2.52%	0.03%

The Association administers its variable-rate loans based on its cost of funds. Although adjustments to borrower variable rates have generally followed changes in the Prime Rate, that rate has become increasingly less relevant as an indicator of credit demand. The Association's cost of funds is indexed to a blend of two rates – the Farm Credit Discount Note Rate and the London Interbank Offered Rate (LIBOR). Management closely monitors interest rate movements and will adjust variable rates to customers to preserve adequate net interest income to sustain the growth of the Association.

Provision for Loan Losses: Management reviews the allowance quarterly and makes adjustments that reflect the changing risks in the loan portfolio. In 2011, improving credit quality warranted a reduction of the Allowance for Loan Losses, which, in turn, produced a net reversal of loan loss provision. The provision was affected in 2010 by the deterioration in credit quality of a small number of large loans. These loans were affiliated with the dairy and building products industries, two business segments that were particularly hard hit by the recession in 2010.

Non-interest Income: Pursuant to the merger between CoBank and AgBank, AgBank undertook a recapitalization transaction in order to align all associations with CoBank's stock investment requirement. The recapitalization involved the tax-free issuance of AgBank common stock to each association in exchange for an equal amount of attributed surplus previously allocated on a patronage basis to such association. The attributed surplus is a Bank equity representing prior year earnings. The exchange results in non-interest income of $75.2 million being recognized and a corresponding increase in the Investment in Bank. This non-cash income would only be available for patronage to the Association's members upon a cash redemption of the stock by the Bank, which redemption would likely be remote.

Other non-interest income consists primarily of syndication fees, servicing fees, and other gains and losses. Loan origination fees increased by $3.3 million in 2011 as a result of several Capital Market transactions. In 2010, the Association recorded gains on the acquisition and disposals of various properties of $3.6 million. The Association also received a $4.9 million rebate of previously expensed Farm Credit System Insurance Corporation (FCSIC) insurance premiums. This rebate came as a result of a determination that the System-wide insurance fund was over-funded based on the current volume and quality of System assets.

Other Expenses: Other expenses consist of salaries and benefits, occupancy costs, insurance fund premiums, supervisory expenses, and other operating costs. The increase in these costs in 2011 was primarily due to the costs associated with maintaining and disposing of properties acquired in foreclosure. Other expenses increased by a net $9.7 million in 2010 primarily due to the added operating costs incurred after the merger in November 2009. Employee costs increased due to normal salary and benefit adjustments, a net increase in the number of employees and payments under the Association's incentive plan.

Provision for Income Taxes: The Association's effective tax rate is primarily affected by the mix of taxable and tax-exempt lending activities. The provision increased in 2011 due largely to two factors; the write-off of operating loss carryforwards deemed to be unusable and the reduction of the deferred tax asset associated with the Loan Loss Allowance, which was reduced during the year. The decrease in the tax benefit in 2010 as compared to 2009 was the result of the impact of loan loss provision on the Association's deferred tax liability.

Other Comprehensive Loss: Other comprehensive loss arises from the recognition of an unfunded pension liability. It is included in the Association's equity portion of the Consolidated Balance Sheet, and the charges in 2011 and 2010 did not affect net income for either year. The liability and the associated other comprehensive loss may fluctuate from year to year depending on the pension plan's performance and underlying actuarial assumptions and obligations. The actual loss or income to be realized as pension liabilities are paid will not be determinable until the liabilities expire. See Note 11 to the consolidated financial statements for further discussion.

Liquidity and Funding: Liquidity is necessary to meet our financial obligations. Obligations that require liquidity include paying our note with AgBank, funding loans and other commitments, and funding operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction, and liquidate nonearning assets. Our direct loan with AgBank, cash on hand, and loan repayments provide adequate liquidity to fund our ongoing operations and other commitments. Even with the volatility in the financial markets, we anticipate liquidity levels will be adequate to meet our obligations. The Association also has the ability to sell qualified loans to the Federal Agricultural Mortgage Corporation's secondary market programs to generate additional liquidity as needed.

The Association's primary source of funds (excluding capital) and largest liability is its direct loan from AgBank, administered under a General Financing Agreement. The Association applies substantially all cash received to the direct loan and draws all cash disbursements from it. The Association's ability to incur debt from other sources is subject to statutory and regulatory restrictions.

AgBank's primary source of funds is the sale of securities to investors through the Federal Farm Credit Banks' Funding Corporation. The continued liquidity of the Association is therefore directly dependent upon the ability of the Farm Credit System to continue to sell debt securities at competitive rates. Historically, this access has provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets have experienced significant volatility, the Association anticipates continued access to the funding necessary to support its lending and business operations. AgBank is generally responsible for all District-wide funding decisions.

At December 31, the direct loan payable to AgBank consisted of the following:

	Weighted Average Interest Rate		Balance (In millions)	
Type	**2011**	**2010**	**2011**	**2010**
Mortgage rates	2.77%	2.95%	$2,636.0	$2,859.4
Commercial rates	1.64%	1.53%	803.6	828.5
Total			**$3,439.6**	**$3,687.9**

The Association's direct note with AgBank provides composite rates on separate commercial and mortgage segments of the note. These rates are adjusted monthly based on market conditions and the product mix of the loans funded. The decrease in mortgage rates during 2011 reflects a downward shift in market rates that occurred throughout the year. The increase in commercial rates resulted from the drop in commercial loan volume. Loans with a lower average cost of debt paid off, leaving a remaining volume that had a higher average cost of debt.

The Association also obtains a measurable amount of funding from customer Funds Held accounts and preferred H stock. Funds Held accounts pay a marginally lower interest rate than the direct loan payable to AgBank. The accounts are uninsured and the rate is variable. The dividend rate on H stock is variable and is also marginally lower than the interest rate on the direct loan. From a funding perspective, both Funds Held and H stock provide a more cost-effective alternative than the loan from AgBank. Both are offered to customers of the Association as investment vehicles for excess operating funds. Restrictions apply to the purpose for which the Funds Held may be withdrawn and the maximum dollar amount a customer may maintain in either Funds Held accounts or H stock.

LOAN PORTFOLIO

The Association's loan portfolio consists of accrual loans, nonaccrual loans on which the accrual of interest has been suspended, and other loans such as sales contracts arising from the sale of property acquired through foreclosure.

Average accrual loan volume was $4.2 billion and $4.5 billion for 2011 and 2010, respectively. The following table shows the fluctuations in major categories of loans from December 31, 2010 to December 31, 2011.

	December 31			
(In millions)	2011 Volume	Percent of Total	2010 Volume	Percent of Total
Real estate mortgage	$2,805.1	64%	$2,984.1	65%
Production and intermediate-term	725.9	17%	786.9	17%
Agribusiness	815.6	18%	791.0	18%
Rural residential real estate	5.1	–	5.8	–
Other	39.5	1%	6.6	–
Total loans	**$4,391.2**	**100%**	**$4,574.4**	**100%**

Factors affecting the changes in loan categories are discussed below.

Real estate loans: Acquisition of new properties was subdued during the year as a result of the economic uncertainties and declining real estate values that prevailed during 2011. Borrowers tended to reduce their debt obligations rather than expand into new ventures. The decrease in total mortgage volume was spread across all of the Association's financed commodities.

Production and Intermediate-term Loans: Production loan volume decreased primarily as a result of borrowers' inclinations to reduce debt during periods of economic uncertainty.

Agribusiness Loans: These loans are made to benefit the throughput of agricultural goods to the marketplace. Such loans are generally long-term mortgages on the facilities and equipment of a processor. The slight increase in these loans during the year was related to a small group of individual borrowers.

Rural Residential Real Estate Loans: These loans consist of loans for homes located in rural areas.

Other Loans: These loans consist of loans made for sales contracts, and energy-related loans.

Small loans (less than $250,000) accounted for 72% of the total number of loans but only 13% of loan volume at December 31, 2011. Credit risk on small loans, in many instances, is also reduced by non-farm income sources. Loans of $5 million or more account for 1% of the total number of loans but 20% of the total loan volume.

COMMODITIES FINANCED

Major commodities financed by the Association are shown in the graph on page 6. Vineyards and wineries, the largest segment of the loan portfolio, experienced a mixed year in 2011. The 2011 harvest was delayed by a longer-than-normal growing season as a result of heavy spring rains and cool temperatures. Most of the Association's vineyard portfolio is in the Super and Ultra premium segments of the wine market. Historically, these segments are generally more stable and more insulated from price fluctuations than other segments of the wine market. For the most part, the industry has fared well during the economic recession. The wine industry continues to consolidate, and successful operators possess the capacity, brand accumulation, economies of scale, and marketing strength to compete effectively.

The dairy industry, which constantly grapples with volatile price fluctuations, saw improved dairy prices in 2011 but anticipates moderately lower prices in 2012. Milk prices were helped by a weak dollar during the year which encouraged exports. In addition to swings in milk price, dairy farmers have experienced significant changes in prices of feed and other production inputs. Feed is the single largest milk-production cost input. Cost containment, especially for feed and fuel, is an ongoing struggle.

The vegetable industry continues to remain strong, with improved market conditions throughout much of the year. The price of inputs has increased, however, and sales of more expensive prepackaged vegetables dropped as recession-weary consumers spent less. Fresh-vegetable markets are highly cyclical, with short-term price swings dependent upon supply and demand.

Field crops consist primarily of wheat, alfalfa, soybean, corn, sorghum, and other grains. Crop producers have enjoyed an extended period of profitability due to historically high grain prices and generally favorable growing conditions. As a result, land values continue to remain strong. Water availability and export demand are ongoing concerns for grain farmers.

The extended housing-market slump has adversely affected borrowers in the forest products industry. Lumber demand is weak but is anticipated to improve in the coming year. Timberland transactions will likely continue to be slow as buyers wait for an improvement in the economy.

The classification "Tree fruits and nuts" largely consists of almond orchards in the Valley Region. The 2011 almond crop was among the largest on record. Current prices strengthened moderately and are comparable to those of the previous year. Record shipments continue for both domestic and export markets, which have benefitted from the decline in the U.S. dollar during 2011.

GEOGRAPHIC CONCENTRATIONS

The Association's territory covers 38 California counties from the Oregon border to the Mexican border, the entire state of Nevada, central Kansas, and parts of northern Oklahoma. These counties are listed in Note 1 to the consolidated financial statements. Effective with the merger with Farm Credit Services of the Mountain Plains on January 1, 2012, the western half of Colorado and the northwest portion of New Mexico became part of the Association's territory. The geographical distribution of loan volume as of December 31, 2011 and 2010 is shown below. This chart indicates from where the loan volume is serviced. The Association originates and services loans in areas outside of its chartered territory with the concurrence of the Farm Credit associations where those loans are physically located.

	2011		2010	
Area (In millions)	**Loan Volume**	**Percent of Total**	**Loan Volume**	**Percent of Total**
Northern Region (north of Mendocino County)	$900.9	20%	$843.5	18%
Heartland Region (parts of Kansas and Oklahoma)	646.8	15%	830.8	18%
Central Region (Mendocino County to Marin County)	689.5	16%	711.8	16%
Southern Region (south of Santa Barbara County)	598.7	14%	655.9	14%
Valley Region (Stanislaus and surrounding counties)	972.4	22%	937.6	20%
Salinas Region (Monterey and surrounding counties)	386.1	9%	398.4	9%
Intermountain Region (the state of Nevada and parts of northeastern California)	196.8	4%	196.4	5%
Total	**$4,391.2**	**100%**	**$4,574.4**	**100%**

We are party to a Territorial Approval Agreement (Agreement) with other associations in the states of Oklahoma, Colorado, Kansas, and New Mexico. The Agreement eliminates territorial restrictions and allows associations that are a party to the Agreement to make loans in any other association's territory regardless of a borrower's place of residence, location of operations, location of loan security, or location of a headquarters. This Agreement can be terminated upon the earlier to occur of the following:

1) the time when all but one association has withdrawn as a party to the Agreement; or

2) December 31, 2025; or

3) when requested by FCA.

The Association routinely sells portions of large loans to other financial institutions to manage portfolio risk. These institutions are geographically dispersed and come from within the Farm Credit System, the commercial banking industry, and life insurance companies. In addition, the Association has entered into participation agreements with these institutions in which the Association services the entire loan but owns only a small portion. Participating in or selling loans allows the Association to manage its lending limits and its internal capital requirements, as well as to diversify risk. Neither the principal nor any unused commitments related to the participated or sold portion of these loans are included on the Association's Consolidated Balance Sheet. Participation activity at December 31 is summarized below.

(In millions)	2011	2010
Loans sold to others	$2,324.0	$2,549.4
Retained interest in sold loans	$581.5	$614.7
Loans purchased from others	$383.9	$545.9
Syndications serviced for others	$1,142.9	$1,276.5
Loans sold to and serviced for Farmer Mac	$0.2	$0.4

To further manage portfolio credit risk, the Association participates in a Farmer Mac guarantee program. Under this program, the Association pays a guarantee fee to Farmer Mac to assume the balance of pre-designated loans if they become delinquent. Management considers these fees to be intrinsic credit enhancement costs that affect the yield on the pool of guaranteed loans. The Association paid $224,000 and $272,000 in guarantee fees during 2011 and 2010, respectively. These fees are included in interest expense. Farmer Mac guaranteed loans at December 31, 2011 and 2010 were $46.8 million and $51.1 million, respectively.

CREDIT QUALITY

Management reviews the credit quality of the loan portfolio regularly as part of the Association's risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

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 facts, conditions, and values that make collection in full highly questionable.

Loss: Assets are considered uncollectible.

In addition to the Uniform Classification System, the Association uses more detailed credit risk classifications to further subdivide credits according to projected probability of default and projected loss given default. Currently, there are 14 classifications under which probability of default may be assigned, and four categories for estimating loss given default for loans.

The Association utilizes a portfolio risk management process to evaluate and monitor the risk associated with major commodity groups, credit classifications, unsecured loans, and purchased loans. This process employs the use of shock analysis to determine the impact of significant credit deterioration in any one group on the portfolio as a whole. Credit classification trends are identified and monitored as an early warning sign of potential non-performing assets. The Association employs management personnel to perform the risk management process that the Board of Directors oversees. In addition, the Association conducts internal credit reviews to evaluate the efficacy of the process.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

	2011	2010	2009
Acceptable and OAEM	95.9%	95.7%	96.4%
Substandard	4.1%	4.3%	3.6%
Total	**100.0%**	**100.0%**	**100.0%**

Despite recent economic conditions that have created challenges for some borrowers, the Association's credit quality has remained relatively stable. Operators in the dairy and building products industry have been particularly affected by adverse economic conditions. There were no loans classified as Doubtful or Loss for any of the three years presented. The credit quality of the Association's loan portfolio remains strong due to continued emphasis on sound underwriting standards. Agriculture remains a cyclical business that is heavily influenced by production, operating costs, and commodity prices. Each of these can be significantly affected by uncontrollable events. While credit quality is anticipated to remain sound in 2012, we expect that a slow economic recovery and fewer government-support programs may lead to a weakening in the loan portfolio.

CREDIT COMMITMENTS

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage exposure to interest rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2011.

(In thousands)	Less than 1 Year	1–3 Years	4–5 Years	Over 5 Years	Total
Commitments to extend credit	$253,319	$313,884	$252,711	$214,380	$1,034,294
Standby letters of credit	30,959	1,296	216	–	32,471
Total commitments	**$284,278**	**$315,180**	**$252,927**	**$214,380**	**$1,066,765**

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their contractual amounts are not reflected on the Consolidated Balance Sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and the Association applies the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

HIGH-RISK ASSETS

FCA regulations specify three high-risk loan performance categories – nonaccrual, restructured, and loans 90 days past due still accruing interest. These are referred to as impaired loans. Loan volume outstanding, including accrued interest, for each loan performance category as of December 31 follows.

(In thousands)	2011	2010	2009
Nonaccrual	$79,286	$67,652	$72,196
Restructured	255	341	486
Accrual > 90 days past due	–	2,073	–
Total impaired loans	79,541	70,066	72,682
Other property owned	11,227	25,739	4,626
Total high-risk assets	**$90,768**	**$95,805**	**$77,308**
Nonaccrual loans/total loans	1.81%	1.48%	1.45%
Nonaccrual loans current as to principal and interest	$24,773	$50,768	$21,191

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of principal and/or interest. Nonaccrual loans increased slightly in 2011 as the net result of credit deterioration among a small number of borrowers in unrelated commodity groups.

High-risk asset volume is anticipated to increase in the future as the Association has experienced record-high credit quality in recent years. Given the cyclical nature of agriculture, management anticipates that factors such as product oversupply, water issues, regulatory demands, increasing interest rates, and public demand for commodities will likely cause high-risk volume to increase over time. The slow recovery anticipated for the U.S. economy in 2012 will likely result in continued stress on the Association's loan portfolio. The Association maintains a Risk Management department to monitor and address portfolio risk.

ALLOWANCE FOR LOAN LOSSES

We maintain an allowance for loan losses at a level consistent with the probable losses identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors.

The allowance for loan losses was reduced $5.9 million in 2011 to reflect improved credit quality in the Association's loan portfolio. The combination of a 4% decrease in loan volume and generally healthy commodity prices justified reducing the allowance. In 2010, the allowance increased $12.3 million primarily due to increased stress on the portfolio from economic challenges mainly in the dairy and forest products industries. Overall, charge-off activity remains low relative to the size of our loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 is shown in the following table.

	2011	2010	2009
Allowance for loan losses as a percentage of:			
Loans	0.28%	0.40%	0.26%
Impaired loans	15.47%	26.02%	17.8%

Further discussion of the allowance can be found in Note 3 to the consolidated financial statements.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio (including letters of credit and unfunded loan commitments). Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures. Underwriting standards are developed and utilized to determine an applicant's operational, financial, and management resources available for repaying debt within the terms of the note or loan agreement. Underwriting standards include among other things, an evaluation of:

Character: borrower integrity and credit history;

Capacity: repayment capacity of the borrower based on cash flows from operations or other sources of income;

Collateral: to protect the lender in the event of default and also serve as a secondary source of loan repayment;

Capital: ability of the operation to survive unanticipated risks; and,

Conditions: including use of the loan funds, terms, restrictions, etc.

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

By regulation, the Association cannot have loan commitments to one borrower for more than 25% of permanent capital. Through lending delegations, AgBank further restricts individual loan size limits to one borrower to 15% of permanent capital. Within these parameters, the Association has set lending limits to manage loan concentration. Lending limits are established for individual loan size, commodity, special lending programs, and geographic concentrations. The Association has established internal lending delegations to properly control the loan approval process. Delegations to staff are based on the Association's risk-bearing ability, loan size, complexity, type, and risk, as well as the expertise of the credit staff member. Larger and more complex loans are typically approved by a loan committee with the most experienced and knowledgeable credit staff serving as members.

One method for managing concentration is through the use of participation programs with other System and non-System institutions. Buying and selling loan volume, within and outside the System, can help reduce concentrations and manage growth and capital positions while allowing for a sharing of credit expertise. Concentrations and credit risk are also managed through the utilization of government guarantee programs and Farmer Mac guarantee programs. The Association has further diversified concentrations in agricultural production by developing rural residence, part-time farmer, and agribusiness portfolios. Rural resident and part-time farmers often derive a significant portion of earnings from nonagricultural sources, thus helping diversify repayment risk to sources other than agricultural production income.

The majority of Association lending is first-mortgage real estate lending. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured. Collateral evaluations are made within FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. Certain appraisals must be performed by individuals with a state certification or license.

The Association utilizes a Combined System Risk Model (Model) in its loan and portfolio management processes. The Model is a two-dimensional risk rating system that estimates each loan's probability of default and loss given default. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. The Model estimates loan losses with levels of risk granularity, particularly related to acceptable loans. The Model's 14-point scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category, and one loss category. This model also serves as the basis for future economic capital modeling.

ASSET/LIABILITY MANAGEMENT

The Association obtains funds for operations through a borrowing relationship with AgBank. The note payable to AgBank renews annually and is collateralized by a pledge to AgBank of substantially all assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA), which is subject to renewal periodically in accordance with normal business practices.

The interest rate risk inherent in the loan portfolio is substantially mitigated through the funding relationship with AgBank and allows for loans to be match-funded with AgBank. Borrowings from AgBank match the pricing, maturity, and option characteristics of the loans to borrowers. AgBank manages interest rate risk through the direct loan pricing and asset/liability management processes. Although AgBank incurs and manages the primary sources of interest rate risk, the Association may still be exposed to interest rate risk from the impact of interest rate changes on earnings generated from its loanable funds.

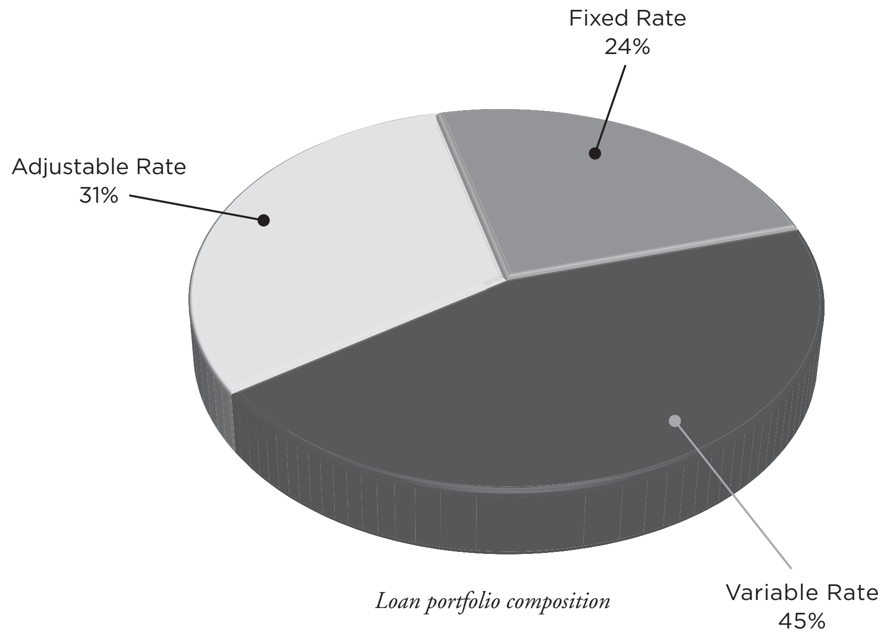
To stabilize earnings from loans financed by equity, the Association has committed funds with AgBank at a fixed rate for a specified time frame as part of AgBank's Earnings Stabilization Management Program (ESMP). This program enables the Association to stabilize the earnings on its loans financed by equity without significantly increasing the overall interest rate risk position. The balance of the ESMP commitments total $10.7 million at December 31, 2011, and will mature by the end of 2014. The average interest rate on this balance as of December 31, 2011 was 2.50%.

AgBank's primary source of funds is the sale of System-wide Debt securities to investors through the Federal Farm Credit Banks' Funding Corporation. These funds are available to the Association through various AgBank loan products, provided the loan with AgBank is in good standing under the GFA. Therefore, the Association's continued liquidity is directly dependent upon the Farm Credit System's ability to sell debt securities at competitive rates and the Association maintaining a sound financial position and borrowing relationship with AgBank. The direct loan, cash on hand, and loan repayments provide adequate liquidity to fund ongoing operations and other commitments.

Net interest income is affected by the spread between the rates the Association earns on its assets and the rates it pays on interest-bearing liabilities. The Association manages this spread by offering various loan products with differing interest rates, maturities, and re-pricing terms. Net interest income expressed as a percentage of average total earning assets is referred to as the net interest margin. For 2011, the net interest margin was 2.86%, down from 2.87% in 2010. Competitive pressures in a tightened credit market produced a lower average margin for the year. The chart on page 14 shows other factors that affected net interest income during the year.

Approximately 76% of the Association's loan portfolio is in variable-interest rate plans that provide for periodic interest rate adjustments based on the cost of funds and other factors. Variable-rate loans are set at management's discretion, whereas adjustable-rate loans are tied to a market index such as the prime rate. The remaining 24% of the portfolio is in interest rate programs where the Association is able to lock in an interest rate spread for the term of the loan, thereby mitigating interest rate risk. These programs enhance the Association's ability to manage net interest income and avoid interest rate risk exposure during periods of interest rate volatility.

The Association has a differential pricing policy for fees and interest rates, which is based on loan size, servicing requirements, and credit risk of a loan. Management's objective is to maintain interest rates that are competitive with other lenders providing similar-type loans. The Association's competitiveness is evaluated by periodic surveys of other lending institutions in its lending territory. Management plans to continue to fund lending operations through the utilization of a borrowing relationship with CoBank, retained earnings from current and prior years, and from borrower stock investment in the Association.



Loan portfolio composition

LIQUIDITY

The Association's liquidity policy is intended to manage short-term cash flow, maximize debt reduction, and liquidate non-earning assets. Management anticipates liquidity levels will be adequate to meet future obligations.

The Association's loanable, or "owned," funds, which consist of accrual loans and excess investment in AgBank, less interest-bearing trust funds, Funds Held, and notes payable, were $891 million at December 31, 2011. This compares to $839 million at December 31, 2010. The increase in the owned funds position during 2011 resulted from the net cash based earnings for the year. When equity is contributed to the Association in the form of earnings or stock, it can replace debt to fund the earning assets. The note payable is reduced as earnings, to the extent cash income exceeds operating needs, are applied to the outstanding principal obligation. As a result, capital becomes a greater source of funding the loan portfolio.

CAPITAL RESOURCES

The following table summarizes the Association's capital position at December 31.

	2011	2010	2009
Total capital (in millions)	$1,160.9	$1,039.9	$974.2
Debt to capital	3.06:1	3.64:1	4.11:1
Capital to net loans	26.5%	22.8%	20.1%
Capital to total assets	24.6%	21.6%	19.6%
Capital to total liabilities	32.6%	27.5%	24.3%

As a prudent business practice, the Association has established a capital adequacy plan that outlines objectives relating to maintaining a stable, secure capital base. Permanent capital, as defined by FCA regulations, is generated from two sources: retained earnings and at-risk stock. Retained earnings represented 90.4% and 87.3% of total capital at December 31, 2011 and 2010, respectively. For a description of classes of stock and regulatory capital requirements, as well as a description of the Association's Capital Adequacy Plan, please see Note 8 to the consolidated financial statements. The Board and management consider current capital ratios to be adequate in view of anticipated loan growth, operating performance, and identified risks.

Association bylaws require each borrower to invest in the capital stock of the Association. The Association may require additional capital contributions in accordance with federal regulations. Equities purchased by members and surplus accumulated from earnings provide the capital resources used in the Association's operation. The Association's ratio of capital to total assets increased in 2011 due to earnings generated during the year and retained as capital, while total assets decreased.

The Association utilizes a pool of Farmer Mac guaranteed loans to manage capital deployment. Because of the Farmer Mac guarantee, which provides for the sale of loans to Farmer Mac in the event these loans become delinquent, the loans receive a lesser risk weighting for capital ratio calculations than non-guaranteed loans. These guaranteed loans increased the permanent capital ratio by 0.24% in 2011. Because these loans are fully guaranteed, they are bifurcated from the analysis of the Allowance for Loan Losses.

The Board of Directors has adopted an Obligating Resolution to distribute 2012 patronage-sourced earnings to patrons of the Association, contingent upon the Association achieving certain capital criteria.

AOCI ACCUMULATED OTHER COMPREHENSIVE INCOME AND LOSSES

Accumulated other comprehensive income/(loss) totaled $(3,026) at December 31, 2011, a decrease of $3.4 million compared with year-end 2010. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). The Association has adopted FASB guidance, which requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income.

BOARD OVERSIGHT

The Association is governed by an 18-member board that oversees the management of our Association. Of these directors, fifteen are elected by the stockholders and three are appointed by the elected directors. The Board of Directors represents the interests of our stockholders and meets regularly to perform the following functions, among others:

- Select, evaluate, and compensate the chief executive officer;
- Establish the strategic plan and approve annual operating plan and budget;
- Oversee the lending operations;
- Advise and counsel management on significant issues; and,
- Oversee the financial reporting process, communications with stockholders, and legal and regulatory compliance.

DIRECTOR INDEPENDENCE

All directors must exercise sound judgment in deciding matters in the Association's interest. All directors are independent from the perspective that no management or staff serves as Board members. However, as a financial service cooperative, the Association is required by the Farm Credit Act and FCA regulations to have elected directors that have a loan relationship with the Association.

The elected directors, as borrowers, have a vested interest in ensuring the Association remains strong and successful. However, the borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of the Board. Annually, in conjunction with the independence analysis and reporting on loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

Audit Committee: The Audit Committee is responsible for oversight of financial reporting and examinations. During 2011, six meetings were held. The Audit Committee responsibilities include, but are not limited to the following:

- Oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- Oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- Review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and,
- Establishment and maintenance of procedures for the receipt, retention, and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls, and auditing matters.

Compensation Committee: The Compensation Committee is responsible for the oversight of employee and director compensation. The Committee is composed of six members. The Committee meets regularly to review and evaluate all aspects of compensation, including benefits programs. Six meetings were held in 2011.

Governance Committee: The Governance Committee is composed of six members. Six meetings were held in 2011. The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While not subject to the requirements of this law, the Association strives to implement steps to strengthen governance and financial reporting. The Association maintains strong governance and financial reporting through the following:

- A system for the receipt and treatment of whistleblower complaints;
- A code of ethics for the President/CEO, Chief Financial Officer, and Chief Credit Officer;
- Open lines of communication between the independent auditors, management, and the Audit Committee;
- "Plain English" disclosures;
- Officer certification of accuracy and completeness of the consolidated financial statements; and
- Information disclosure through the Association's website.

REGULATORY MATTERS

As of December 31, 2011, the Association had no enforcement actions in effect and FCA took no enforcement actions during the year.

The Farm Credit Administration is considering the promulgation of Tier 1 and Tier 2 capital standards for Farm Credit System institutions. The Tier 1/Tier 2 capital structure would be similar to the capital tiers delineated in the Basel Accord that the other Federal financial regulatory agencies have adopted for the banking organizations they regulate. The notices of proposed rulemaking are planned for the second and third quarters of 2012.

HEARTLAND POST-MERGER STUDY

As a condition of the merger between American AgCredit and Farm Credit of the Heartland in November 2009, the Association agreed to provide its regulator, the Farm Credit Administration, with a study of the effectiveness of the merger within 24 months of the merger date. This study was completed in 2011 by an independent consulting firm, which concluded that the objectives of the merger had been met. A summary of the report can be found on the Association's website at www.AgLoan.com/reports.

CUSTOMER PRIVACY

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

Report of Independent Auditors

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF AMERICAN AgCREDIT, ACA AND SUBSIDIARIES

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

As more fully described in Note 2 to the consolidated financial statements, on November 30, 2009, the Association completed a merger with Farm Credit of the Heartland, ACA.

PricewaterhouseCoopers LLP

March 1, 2012

Consolidated Balance Sheet

December 31, (In thousands)	**2011**	**2010**	**2009**
ASSETS			
Loans	$4,391,248	$4,574,439	$4,747,370
Less: allowance for loan losses	(12,302)	(18,227)	(12,293)
Net loans	**4,378,946**	**4,556,212**	**4,735,077**
Cash	18,070	15,247	14,440
Accrued interest receivable	37,592	42,167	44,792
Investment in AgBank	194,567	119,327	119,327
Investment in CoBank	15,320	13,598	11,622
Premises and equipment, net	36,894	35,020	31,044
Deferred tax assets, net	3,221	9,312	8,940
Other property owned	11,227	25,739	4,626
Other assets	22,886	9,623	13,306
Total assets	**$4,718,723**	**$4,826,245**	**$4,983,174**
LIABILITIES			
Notes payable	$3,454,143	$3,696,605	$3,925,037
Funds Held accounts	17,501	11,414	7,001
Accrued interest payable	12,439	15,841	17,598
Dividends payable	34,762	26,329	15,821
Other liabilities	38,970	36,167	42,819
Total liabilities	**3,557,815**	**3,786,356**	**4,008,276**
Commitments and contingencies (Note 14)			
MEMBERS' EQUITY			
Preferred stock	104,966	125,957	116,286
Common capital stock and participation certificates	6,147	6,371	6,722
Additional paid in capital	206,948	206,226	206,226
Unallocated retained surplus	845,873	700,997	646,445
Accumulated other comprehensive loss	(3,026)	338	(781)
Total members' equity	**1,160,908**	**1,039,889**	**974,898**
Total liabilities and members' equity	**$4,718,723**	**$4,826,245**	**$4,983,174**

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

Consolidated Statement of Income

December 31, (In thousands)	**2011**	**2010**	**2009**
INTEREST INCOME			
Loans	$213,575	$236,295	$193,132
Total interest income	**213,575**	**236,295**	**193,132**
INTEREST EXPENSE			
Notes payable	84,610	100,816	85,363
Funds Held and other interest	720	777	373
Total interest expense	**85,330**	**101,593**	**85,736**
Net interest income	**128,245**	**134,702**	**107,396**
Reversal of /(Provision for) loan losses	5,523	(11,000)	(15,714)
Net interest income after provision for loan losses	**133,768**	**123,702**	**91,682**
NON-INTEREST INCOME			
Loan origination fees and late charges	9,275	5,994	6,164
Servicing fees	3,288	3,132	3,188
Recapitalization distribution from AgBank	75,240	–	–
Patronage refund from AgBank	32,225	4,087	559
Patronage refund from CoBank	3,883	4,666	3,517
Other gains	648	82	275
FCSIC premium rebate	–	4,980	–
Miscellaneous	3,947	4,159	1,220
Total non-interest income	**128,506**	**27,100**	**14,923**
NON-INTEREST EXPENSES			
Salaries and employee benefits	48,577	50,559	39,373
Occupancy and equipment expense	5,806	5,279	3,890
Insurance fund premiums	2,245	2,081	7,010
Supervisory and examination expense	2,363	2,312	1,559
Losses /(Gains) on other property owned, net	3,115	(2,345)	145
Merger costs	338	181	268
Other operating expenses	13,076	11,728	7,877
Total non-interest expenses	**75,520**	**69,795**	**60,122**
Income before income taxes	186,754	81,007	46,483
(Provision) /Benefit for income taxes	(6,098)	369	2,901
Net income	**$180,656**	**$81,376**	**$49,384**

Consolidated Statement

OF CHANGES IN MEMBERS' EQUITY

(In thousands)	Stock and Participation Certificates	Preferred Stock	Additional Paid in Capital	Unallocated Retained Surplus	Other Comprehensive Income/(Loss)	Total Members' Equity
BALANCE AT DECEMBER 31, 2008	**$3,234**	**$125,422**	**–**	**$613,451**	**$(924)**	**$741,183**
Comprehensive income:						
Net income				49,384		49,384
Change in retirement obligation					143	143
Total comprehensive income						49,527
Capital stock/participation certificates issued	279					279
Capital stock/participation certificates retired	(312)					(312)
Stock issued in connection with merger	3,521		206,226			209,747
Preferred stock issued		207,880				207,880
Preferred stock retired		(217,673)				(217,673)
Preferred stock dividends paid		657		(657)		–
Patronage distribution declared				(15,733)		(15,733)
BALANCE AT DECEMBER 31, 2009	**$6,722**	**$116,286**	**$206,226**	**$646,445**	**$(781)**	**$974,898**
Comprehensive income:						
Net income				81,376		81,376
Change in retirement obligation					1,119	1,119
Total comprehensive income						82,495
Capital stock/participation certificates issued	406					406
Capital stock/participation certificates retired	(757)					(757)
Preferred stock issued		153,699				153,699
Preferred stock retired		(144,661)				(144,661)
Preferred stock dividends paid		633		(633)		–
Patronage distribution declared				(26,191)		(26,191)
BALANCE AT DECEMBER 31, 2010	**$6,371**	**$125,957**	**$206,226**	**$700,997**	**$338**	**$1,039,889**

(In thousands)	Stock and Participation Certificates	Preferred Stock	Additional Paid in Capital	Unallocated Retained Surplus	Other Comprehensive Income/(Loss)	Total Members' Equity
BALANCE AT DECEMBER 31, 2010	**$6,371**	**$125,957**	**$206,226**	**$700,997**	**$338**	**$1,039,889**
Comprehensive income:						
Net income				180,656		180,656
Change in retirement obligation					(3,364)	(3,364)
Total comprehensive Income						177,292
Capital stock/participation certificates issued	647					647
Capital stock/participation certificates retired	(871)					(871)
Preferred stock issued		156,597				156,597
Preferred stock retired		(178,131)				(178,131)
Preferred stock dividends paid		543		(543)		–
Patronage distribution declared				(34,762)		(34,762)
Reversal of prior year patronage declared but not paid				247		247
Adjustment to prior year deferred tax provision			722	(722)		–
BALANCE AT DECEMBER 31, 2011	**$6,147**	**$104,966**	**$206,948**	**$845,873**	**$(3,026)**	**$1,160,908**

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

Consolidated Statement

OF CASH FLOWS

INCREASE /(DECREASE) IN CASH (In thousands)	For the Year Ended December 31, 2011	 2010	 2009
Cash flows from operating activities:			
Net income	$180,656	$81,376	$49,384
Adjustments to reconcile net income to net cash provided by operating activities:			
AgBank stock redistribution	(75,240)	–	–
Provision/(Benefit) for loan losses	(5,523)	11,000	15,714
Depreciation	2,898	2,431	1,110
Accretion of yield related to loans acquired in merger	(1,259)	–	(441)
Other property owned carrying value adjustments	2,264	3,201	–
Other (gains)/losses, net	–	(15)	(268)
Gain on sale of other property owned	(1,421)	–	–
Stock patronage from CoBank	(1,722)	(1,976)	(1,521)
Decrease in accrued interest receivable	4,575	2,625	5,446
Decrease /(Increase) in deferred tax asset	6,091	(372)	(2,904)
Increase in other assets	(13,263)	4,542	(4,381)
Decrease in accrued interest payable	(3,402)	(1,757)	(1,259)
Increase /(Decrease) in other liabilities	(1,291)	(5,395)	8,945
Total adjustments	(87,293)	14,284	20,441
Net cash provided by operating activities	**$93,363**	**$95,660**	**$69,825**
Cash flows from investing activities:			
(Increase)/Decrease in loans, net	178,122	138,623	(43,337)
Recovery of loans charged off	440	3,811	571
Acquisition of premises and equipment, net	(6,032)	(7,330)	(5,259)
Proceeds from sale of premises and equipment	–	65	1,502
Unfunded disbursements acquired in merger	–	–	(1,099)
Proceeds from sale of foreclosed assets, net of expenses	15,659	1,131	166
Net cash provided by/(used in) investing activities	**$188,189**	**$136,300**	**$(48,027)**

INCREASE /(DECREASE) IN CASH (In thousands)	**For the Year Ended December 31,** **2011**	**2010**	**2009**
Cash flows from financing activities:			
Net draws/(repayments) on note payable to AgBank	$(236,976)	$(228,432)	$17,067
Increase/(Decrease) in Funds Held accounts	6,087	4,413	(1,083)
Cash distributions paid	(26,082)	(15,821)	(14,721)
Issuances of capital stock and participation certificates	647	406	279
Retirement of capital stock and participation certificates	(871)	(757)	(312)
Issuance of preferred stock	156,597	153,699	207,880
Retirement of preferred stock	(178,131)	(144,661)	(217,673)
Net cash used by financing activities	**$(278, 729)**	**$(231,153)**	**$(8,563)**
Net increase in cash	2,823	807	13,806
Cash at beginning of year	15,247	14,440	634
Cash at end of year	**$18,070**	**$15,247**	**$14,440**

SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS (In thousands)	**For the Year Ended December 31,** **2011**	**2010**	**2009**
Dividends currently payable	$34,762	$26,329	$15,821
Stock patronage from CoBank	$1,722	$1,976	$1,521
Net loan charge-offs	$842	$8,877	$12,835
Transfer of fixed assets to assets held for sale	–	–	$105
Amortization of fair market value of net assets acquired in merger	$1,259	$6,392	$180
Impact of new pension accounting guidance	–	–	$143
Dividend accrual adjustment to prior year	$247	$137	–
Impact of merger transaction:			
Assets acquired	–	–	$984,801
Liabilities acquired	–	–	$775,054
Equity issued	–	–	$209,747
Supplemental information:			
Interest paid	$(76,442)	$(94,563)	$(86,995)
Income taxes paid	$(6)	$(6)	$(2)

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

NOTE 1 ORGANIZATION AND OPERATIONS

A. Organization: American AgCredit, ACA and subsidiaries, American AgCredit PCA and American AgCredit FLCA (collectively called "the Association"), is a member-owned cooperative that provides credit and credit-related services to and for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in the state of Nevada and the following California counties: Alameda, Alpine, Amador, Calaveras, Contra Costa, Del Norte, El Dorado, Humboldt, Lake, Lassen, Marin, Mariposa, Mendocino, Merced, Modoc, Mono, Monterey, Napa, Plumas, Riverside, Sacramento, San Benito, San Diego, San Bernardino, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Sierra, Siskiyou, Sonoma, Stanislaus, Tuolumne, and portions of Los Angeles, Fresno, and Trinity. In Kansas, the Association serves the counties of Barber, Barton, Butler, Chautauqua, Cloud, Comanche, Cowley, Edwards, Elk, Ellis, Ellsworth, Graham, Greenwood, Harper, Harvey, Jewell, Kingman, Kiowa, Lincoln, McPherson, Mitchell, Norton, Osborne, Ottawa, Pawnee, Phillips, Pratt, Reno, Republic, Rice, Rooks, Rush, Russell, Saline, Sedgwick, Smith, Stafford, Sumner, and Trego. In Oklahoma, the Association serves the counties of Kay, Noble, and Osage.

The Association is a lending institution of the Farm Credit System (the System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). At December 31, 2011, the System was comprised of four Farm Credit Banks (FCBs), one Agricultural Credit Bank (ACB), and approximately 85 associations. Each FCB and the ACB serve one or more Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that may originate and service long-term, short-term, and intermediate-term loans. PCAs, FLCAs, and ACAs are collectively referred to as associations. With the merger of CoBank, ACB (CoBank) and U.S. AgBank, FCB (AgBank) effective January 1, 2012, the nation is currently served by three FCBs and the one ACB.

In December 2010, the boards of directors of AgBank, the Association's funding bank, and CoBank, ACB approved a Letter of Intent to pursue a merger. In March 2011, following unanimous votes by the boards of both banks, a merger application was submitted to the Farm Credit Administration (FCA), the Farm Credit System regulator. On June 22, 2011, the FCA granted preliminary approval of the merger, subject to certain conditions. On September 8, 2011, AgBank and CoBank announced that their voting shareholders approved the proposed plan of merger between the two banks. Final approval from the FCA was received in December 2011. The merger was effective on January 1, 2012. Beginning January 1, 2012, the Association receives funding from the merged bank, CoBank.

The merged bank will do business under the CoBank name and be headquartered just outside Denver, Colorado, but will maintain a presence and operations in Wichita and Sacramento. Robert B. Engel, CoBank's president and chief executive officer, is the chief executive of the merged bank. CoBank had total assets of $63.3 billion and capital of $4.9 billion at December 31, 2011.

At December 31, 2011, U.S. AgBank, FCB (AgBank), its related associations, and AgVantis, Inc. (AgVantis) were collectively referred to as "the District." Prior to the merger, AgBank provided the majority of funding to associations within the District and was responsible for supervising certain activities of the District associations. AgVantis, which is owned by the entities it serves, provided technology and other operational services to certain associations and to AgBank prior to its merger. On December 31, 2011, the AgBank District consisted of AgBank; 24 Agricultural Credit Association (ACA) parent companies, which each have two wholly owned subsidiaries (a FLCA and a PCA); two FLCAs; and AgVantis. On January 1, 2012, the merged CoBank District consists of CoBank, 27 ACAs, two FLCAs, and AgVantis. In the following disclosure, the funding bank both prior to and after the merger will be referred to as "the Bank."

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used to insure the timely payment of principal and interest on System-wide debt obligations (Insured Debt), ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes. The Insurance Fund is also available for discretionary uses by the FCSIC in providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average outstanding insured debt adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0% of the aggregate insured debt or such other percentage of the insured debt as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2.0% level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions. The Bank passes this premium expense through to the District associations based on their average adjusted note payable with the Bank.

B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow from the Association, and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses. The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

The Association's financial condition may be impacted by factors affecting AgBank and/or CoBank. Certain District expenses are allocated to the associations. Disclosure of certain accounting policies related to these costs is included in the U.S. AgBank District Annual Report to Shareholders (District's Annual Report), which is available free of charge on CoBank's website, www.CoBank.com; or upon request. Association shareholders will be provided with a copy of the U.S. AgBank District Annual Report, which includes the combined financial statements of AgBank, AgVantis, and its related associations (including American AgCredit, ACA). The U.S. AgBank District Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. In addition, the District's Annual Report identifies favorable and unfavorable trends, significant events, uncertainties, and the impact of activities by the Insurance Corporation. Association shareholders also have available CoBank's annual report on CoBank's website.

The lending and financial services offered by AgBank are described in Note 1 of the District's Annual Report.

C. Merger: On January 1, 2012, the Association merged with Farm Credit Services of the Mountain Plains, ACA, an association headquartered in Greeley, Colorado. Further information on this merger is found in Note 17.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements include the accounts of American AgCredit PCA and American AgCredit FLCA. All significant inter-company transactions have been eliminated in consolidation.

A. Merger Accounting: Effective November 30, 2009, American AgCredit merged with Farm Credit of the Heartland (Heartland), a Farm Credit System association within the U.S. AgBank District. The primary reason to merge was based on a determination that the combined organization should be financially and operationally stronger than either association on a stand-alone basis. The merger was accounted for under the acquisition method of accounting.

As the accounting acquirer, American AgCredit accounted for the transaction by using American AgCredit's historical information and accounting policies and adding the identifiable assets and liabilities of Heartland as of the acquisition date of November 30, 2009, at their respective fair values.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of Heartland stock that were converted in the merger and the shares of American AgCredit stock to which they were converted had identical rights and attributes. For this reason, the conversion of Heartland stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each Heartland share was converted into one share of American AgCredit stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the American AgCredit stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, American AgCredit undertook a process to identify and estimate the acquisition-date fair value of Heartland's equity interests instead of the acquisition-date fair value of American AgCredit's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from Heartland, were measured based on various estimates using assumptions that American AgCredit management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results.

This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. As a result, management recorded no goodwill.

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

(In thousands)	Fair Value	Contractual Amount	Contractual Amounts Not Expected to Be Collected
Assets			
Loans receivable:			
Long-term mortgage	$725,710	$712,751	$3,147
Production and intermediate-term	167,399	167,796	4,113
Processing and marketing	30,838	31,935	1,716
Farm-related businesses	1,450	1,475	25
Rural residence	5,975	5,789	20
Other	2,687	2,691	6
Total loans receivable	**$934,059**	**$922,437**	**$9,027**
Investments in Farm Credit institutions	20,184		
Property and equipment, net	2,660		
Other assets	27,898		
Total Assets	**$984,801**		
Liabilities			
Notes payable	$750,284	$729,036	–
Interest payable	10,396		
Funds held	3,084		
Other liabilities	11,290		
Total liabilities	**$775,054**		
Net assets acquired	**$209,747**		

The fair value of the impaired loans acquired as of November 30, 2009, was $29.9 million. The gross contractual amount of these impaired loans was $33.2 million. The balance of these impaired loans was $24.0 million at December 31, 2009; $17.6 million at December 31, 2010; and $27.7 million at December 31, 2011. The amount of accretable yield relating to all loans acquired was $20.6 million at November 30, 2009; $19.8 million at December 31, 2009; $14.7 million at December 31, 2010; and $9.3 million at December 31, 2011.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of the merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of December 31, 2011, 2010, and 2009. For 2009, the Consolidated Statement of Income reflects the results of operations for American AgCredit for the period of January 1 to November 30 and the results of the merged entity for the period of December 1 to December 31. For 2011 and 2010, the Consolidated Statement of Income reflects the results of operations for American AgCredit as a merged entity. For 2009, the Consolidated Statement of Changes in Members' Equity reflects the changes in members' equity for American AgCredit for the period of January 1 to November 30 and the results of the merged entity for the period of December 1 to December 31. For 2011 and 2010, the Consolidated Statement of Changes in Members' Equity reflects the changes in members' equity for American AgCredit as a merged entity. For 2009, the Consolidated Statement of Cash Flows reflects the cash flows for American AgCredit for the period of January 1 to November 30 and the results of the merged entity for the period of December 1 to December 31. For 2011 and 2010, the Consolidated Statement of Cash Flows reflects the cash flows for American AgCredit as a merged entity. Information presented in the Footnotes to the Consolidated Financial Statements for 2009 reflects the balances of the merged Association as of December 31, 2009, or, in the case of transactional activity, of American AgCredit for the period of January 1 to November 30 and the merged Association for the period of December 1 to December 31. Information and transactional activity presented for 2011 and 2010 reflect American AgCredit as a merged entity.

The capital position of the Association is measured by regulatory standards issued by the FCA. The impact of the merger on capital was to increase the December 31, 2009 Permanent Capital Ratio by approximately 1.40%. The capital ratio is also affected by annual net earnings, patronage dividends, asset size, and other factors. There were no regulatory conditions affecting the use of capital as a result of the merger.

B. Recently Issued or Adopted Accounting Pronouncements: In January 2011, the Financial Accounting Standards Board ("FASB") issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

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

In May 2011, the FASB issued guidance entitled "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The significant amendments include clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy and expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this guidance will not impact the Association's financial condition or results of operations, but may result in additional disclosure requirements.

In June 2011, the FASB issued guidance entitled "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main 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:

- A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income.
- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

This guidance is to be applied retroactively. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In September 2011, the FASB issued guidance entitled "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan and postretirement benefits other than pensions, 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 nonpublic entities. The amendments should be applied retrospectively for all prior periods presented. The adoption of this guidance will not impact financial results but will result in some additional disclosures.

Certain amounts in the prior period's financial statements have been reclassified to conform to the current period's financial statement presentation.

C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have maturities ranging up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

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

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or 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 reversed (if accrued in the current year) and/or included in the recorded investment asset balance. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest.

When loans are in nonaccrual status, loan payments are generally applied against the recorded investment in the loan asset. Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectability of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be transferred to accrual status when contractual 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." Loans are charged-off at the time they are determined to be uncollectible.

Loan origination fees and certain direct origination costs for mortgage loans and commercial loans with terms greater than one year are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment of the yield of the related loan.

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual term of the loan, the loan is classified as a restructured loan. If the borrowers' ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

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

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

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

A specific allowance may be established for impaired loans under GAAP. Impairment of these loans is measured by the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, by the loan's observable market price, or fair value of the collateral, if the loan is collateral dependent.

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

E. Investment in AgBank: The Association's investment in AgBank is in the form of Class A Common Stock. The minimum required investment in AgBank is 5.0% of average direct loan volume, net of excess investment. The required investment will be adjusted on a quarterly basis to reflect changes in direct loan volume, net of excess investment. The required investment may consist of AgBank surplus attributed to the Association, patronage based stock, and purchased stock.

F. Investment in CoBank: The Association's investment in CoBank is carried at cost plus allocated equities. The investment balance is adjusted each year as patronage dividends are paid. The portion of the patronage paid in equities is added to the investment balance. Effective January 1, 2012, the Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00 percent of the prior year's average direct loan volume.

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

H. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation and amortization computed principally by the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expenses and improvements above certain thresholds are capitalized.

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

J. Employee Benefit Plans: Substantially all employees of the Association participate in either the Ninth Farm Credit District Pension Plan (Pension Plan) or the Eleventh District Defined Benefit Retirement Plan (Defined Benefit Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (Defined Contribution Plan). The Pension Plan and Defined Benefit Plan are non-contributory defined benefit plans. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. Detailed financial information for the Pension Plan and Defined Benefit Plan may be found in the District's Annual Report. The Defined Benefit Plan was closed to employees hired after December 31, 1997. The Pension Plan was closed to employees beginning January 1, 2007.

The Defined Contribution Plan has two components. Employees who do not participate in the Defined Benefit Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employees hired on or after January 1, 1998, are eligible to participate only in the Defined Contribution Plan. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also provides certain health and life insurance benefits to eligible current and retired employees through the Farm Credit Foundations Retiree Medical and Retiree Life Plans. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the Association. The anticipated costs of these benefits are accrued during the period of the employee's active service.

K. Income Taxes: As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. The ACA, which is the holding company, and the PCA subsidiary are subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state, or local laws. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock, or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts reflected in the financial statements and tax bases of assets and liabilities. In addition, a valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings.

At December 31, 2011, deferred income taxes have not been provided on approximately $78.7 million of patronage refunds received from AgBank before January 1, 1993, the adoption date of FASB guidance on income taxes. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. Management's intent is to permanently invest these undistributed earnings in AgBank, thereby indefinitely postponing their conversion to cash.

The Association has not provided deferred income taxes on amounts allocated to the Association that relate to AgBank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on AgBank's post-1992 unallocated earnings. AgBank currently has no plans to distribute unallocated AgBank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

On December 31, 2011, AgBank, in anticipation of its January 1, 2012 merger with CoBank, recapitalized and distributed stock to its Association members. Deferred taxes have not been recorded by the Association on that distribution as management's intent, if that stock is ever converted to cash, is to pass through any related earnings to Association borrowers through qualified patronage allocations.

For state tax purposes, the Association can exclude from taxable income all patronage sourced income. Therefore, the provision for state income taxes is made only on non-patronage sourced taxable earnings.

L. Patronage Distribution from CoBank: The Association records patronage refunds from CoBank upon receipt of the patronage.

M. Patronage Distribution from AgBank: Patronage distributions are made by AgBank annually, except for certain priority patronage. The Association generally records patronage distributions from AgBank upon receipt of the distribution; however, the 2011 patronage distribution was recorded when declared by AgBank as a result of the merger with CoBank. Effective January 1, 2012, patronage distributions from CoBank will be accrued by the Association, rather than when paid.

N. Other Comprehensive Income/Loss: Other comprehensive income/loss refers to revenue, expenses, gains, and losses that under generally accepted accounting principles are recorded as an element of members' equity but are excluded from net income. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.

O. Fair Value Measurement: FASB guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds that relate to deferred compensation and the supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Level 2: Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions that market participants would use in pricing the asset or liability. Level 3 assets include certain loans and other property owned.

The fair value disclosures are presented in Note 15.

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

NOTE 3 LOANS AND ALLOWANCE FOR LOAN LOSSES

Components of loans in the Consolidated Balance Sheet are as follows:

	December 31, 2011	2010	2009
Real estate mortgage	$2,805,103	$2,984,127	$3,032,747
Production and intermediate-term	725,897	786,886	918,112
Agribusiness	815,651	790,950	784,171
Rural residential real estate	5,077	5,825	6,573
Other	39,520	6,651	5,767
Total	**$4,391,248**	**$4,574,439**	**$4,747,370**

In conjunction with the merger as more fully explained in Note 2, the Association carries the loans acquired from the merger transaction at their fair value as of the acquisition date of the merger. The difference between the book value and fair value of these loans at acquisition date is amortized into interest income during the estimated remaining life of the acquired loans. The unamortized premiums remaining at December 31, 2011, 2010, and 2009 were $8.3 million, $12.6 million, and $20.6 million, respectively.

The Association, in the normal course of business, purchases and sells participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. All loans sold to others are sold without recourse. The following table presents information regarding participations purchased and sold during the year ended December 31, 2011.

	Other Farm Credit Institutions		Non–Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$52,488	$771,145	$97,133	$9,855	$149,621	$781,000
Production and intermediate-term	26,378	643,971	18,300	15,340	44,678	659,311
Agribusiness	174,355	883,665	10,300	–	184,655	883,665
Energy	4,910	–	–	–	4,910	–
Total	**$258,131**	**$2,298,781**	**$125,733**	**$25,195**	**$383,864**	**$2,323,976**

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

	December 31, 2011		2010		2009	
Commodity	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Vineyards and wineries	$867,041	20%	$886,423	19%	$908,344	19%
Dairy	630,776	14%	651,180	14%	679,756	14%
Field crops	503,234	12%	572,777	13%	610,013	13%
Tree fruits and nuts	536,411	12%	520,255	10%	474,091	10%
Forest products	489,056	11%	426,106	10%	491,147	10%
Vegetables	304,233	7%	383,395	8%	375,125	8%
Beef	304,992	7%	357,775	8%	390,177	8%
Other	755,505	17%	776,528	18%	818,717	18%
Total	**$4,391,248**	**100%**	**$4,574,439**	**100%**	**$4,747,370**	**100%**

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables.

Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan-to-value ratios in excess of the regulatory maximum.

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 determination of the allowance for loan losses is based on estimates that are susceptible to changes in the economic environment and market conditions, and is based on the Association's past loss experience, known and inherent risks in the portfolio, the estimated value of the underlying collateral, and current economic conditions. Management believes that as of December 31, 2011, the allowance for loan losses is adequate based on information currently available.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

December 31,	2011	2010	2009
Real estate mortgage			
Acceptable	89.43%	89.39%	93.36%
OAEM	5.88	6.11	3.00
Substandard/Doubtful	4.69	4.50	3.64
	100.00%	100.00%	100.00%
Production and intermediate-term			
Acceptable	85.48%	79.74%	82.38%
OAEM	13.15	14.98	13.24
Substandard/Doubtful	1.37	5.28	4.38
	100.00%	100.00%	100.00%
Agribusiness			
Acceptable	89.73%	92.47%	93.42%
OAEM	6.04	5.13	4.28
Substandard/Doubtful	4.23	2.40	2.30
	100.00%	100.00%	100.00%
Energy and water/waste disposal			
Acceptable	100.00%	100.00%	96.39%
OAEM	–	–	–
Substandard/Doubtful	–	–	3.61
	100.00%	100.00%	100.00%
Rural residential real estate			
Acceptable	90.92%	94.82%	94.06%
OAEM	3.28	1.76	1.67
Substandard/Doubtful	5.80	3.42	4.27
	100.00%	100.00%	100.00%
Total Loans			
Acceptable	88.85%	88.29%	91.25%
OAEM	7.10	7.45	5.19
Substandard/Doubtful	4.05	4.26	3.56
	100.00%	100.00%	100.00%

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following table presents information relating to impaired loans.

December 31,	2011	2010	2009
Nonaccrual:			
Current as to principal and interest	$24,773	$50,768	$30,095
Past due	54,513	16,884	42,101
Total nonaccrual	79,286	67,652	72,196
Accrual:			
Accrual > 90 days past due	–	2,073	–
Restructured accrual loans	255	341	486
Total impaired accrual loans	255	2,414	486
Total impaired loans	**$79,541**	**$70,066**	**$72,682**
Cash payments on nonaccrual loans qualifying for income recognition	**$1,187**	**$816**	**$1,699**

There were no material commitments to lend additional funds to debtors whose loans were classified impaired for the years presented.

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

December 31,	2011	2010	2009
Nonaccrual loans:			
Real estate mortgage	$65,960	$57,465	$51,626
Production and intermediate-term	4,996	5,846	13,070
Agribusiness	8,330	4,341	7,232
Energy	–	–	184
Rural residential real estate	–	–	84
Total nonaccrual loans	**79,286**	**67,652**	**72,196**
Accruing restructured loans:			
Real estate mortgage	255	341	486
Total accruing restructured loans	255	341	486
Accruing loans 90 days or more past due:			
Production and intermediate-term	–	2,073	–
Total accruing loans 90 days or more past due	–	2,073	–
Total non-performing loans	**79,541**	**70,066**	**72,682**
Other property owned	11,227	25,739	4,626
Total non-performing assets	**$90,768**	**$95,805**	**$77,308**

Additional impaired loan information follows:

	AT DECEMBER 31, 2011			FOR THE YEAR ENDED DECEMBER 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$14,062	$14,683	$2,385	$8,417	–
Production and intermediate-term	317	1,324	179	465	$(2)
Agribusiness	5,860	6,217	702	4,411	–
Total	**$20,239**	**$22,224**	**$3,266**	**$13,293**	**$(2)**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$52,153	$54,858	–	$45,228	$636
Production and intermediate-term	4,679	5,743	–	9,883	140
Agribusiness	2,469	3,930	–	5,167	88
Total	**$59,301**	**$64,531**	**–**	**$60,278**	**$864**
Total impaired loans:					
Real estate mortgage	$66,215	$69,541	$2,385	$53,645	$636
Production and intermediate-term	4,996	7,067	179	10,348	138
Agribusiness	8,330	10,147	702	9,578	88
Total	**$79,541**	**$86,755**	**$3,266**	**$73,571**	**$862**

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

For the Year Ended December 31,	2011	2010	2009
Interest income recognized on:			
Nonaccrual loans	$847	$618	$1,473
Restructured accrual loans	15	24	2
Accrual loans 90 days or more past due	–	108	–
Interest income recognized on impaired loans	**$862**	**$750**	**$1,475**

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

For the Year Ended December 31,	2011	2010	2009
Interest income that would have been recognized under the original loan terms	$2,107	$1,142	$8,870
Less: interest income recognized	(862)	(608)	(1,475)
Foregone interest income	**$1,245**	**$534**	**$7,395**

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 2011.

	30–89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$16,260	$46,038	$62,298	$2,770,754	$2,833,052
Production and intermediate-term	2,306	681	2,987	727,911	730,898
Agribusiness	1,204	–	1,204	852,388	853,592
Energy and water/waste disposal	–	–	–	6,175	6,175
Rural residential real estate	196	–	196	4,903	5,099
Total	**$19,966**	**$46,719**	**$66,685**	**$4,362,131**	**$4,428,816**

Troubled debt restructurings (TDR) that occurred during the year ended December 31, 2011, are shown below.

	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$1,408	$1,353

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

In the previous 12 months, the Association had $1,266 of troubled debt restructurings for which there was a payment default during the period. These restructurings were on real estate mortgage loans.

There were two loans to one customer that became TDR during 2011. The TDR was due to a reduction in interest rate through an approved bankruptcy plan. Since the TDR did not include a compromise of indebtedness, only an interest rate reduction, a compromise did not flow through the allowance account.

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

Ending Balance at December 31, 2011	Allowance for Credit Losses		Recorded Investments in Loans Outstanding	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$2,385	$3,366	$14,062	$2,818,990
Production and intermediate-term	179	2,634	317	730,581
Agribusiness	702	2,982	5,860	847,732
Energy and water/waste disposal	–	48	–	6,175
Rural residential real estate	–	6	–	5,099
Total	**$3,266**	**$9,036**	**$20,239**	**$4,408,577**

	Balance at December 31, 2010	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2011
Real estate mortgage	$5,710	$(692)	$147	$587	$5,752
Production and intermediate-term	8,934	(150)	253	(6,224)	2,813
Agribusiness	3,568	–	40	75	3,683
Energy and water/waste disposal	15	–	–	33	48
Rural residential real estate	–	–	–	6	6
Total	**$18,227**	**$(842)**	**$440**	**$(5,523)**	**$12,302**

To mitigate the risk of loan losses, the Association may enter into Long-Term Standby Commitment to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event a delinquency of four months occurs, subject to certain conditions. The balance of the loans under the Long-Term Standby Commitment to Purchase agreements was $46.8 million, $51.1 million, and $63.3 million at December 31, 2011, 2010 and 2009, respectively. Fees paid to Farmer Mac for such commitments totaled $224,000, $272,000, and $296,000 for the years ended December 31, 2011, 2010, and 2009, respectively. These amounts are classified as interest expense. Farmer Mac has not purchased any loans under this agreement.

NOTE 4 INVESTMENT IN AgBANK

Prior to the AgBank/CoBank merger, the Association was required to maintain an investment in AgBank equal to 5.00% of average direct loan volume, net of excess investment. The Association's investment in AgBank may have consisted of AgBank surplus attributed to the Association, patronage-based stock, and purchased stock. The Association's stock investment in AgBank was in the form of Class A stock. The investment in AgBank was adjusted on a quarterly basis to reflect changes in direct loan volume, attributed surplus, and stock investment balances. If needed to meet capital adequacy requirements, AgBank required the Association to purchase at-risk stock subject to a limit of 1.00% of the Association's average direct loan volume in a 12-month period.

For the merged bank, effective January 1, 2012, the Association is required to maintain an investment in CoBank equal to 4.00% of the prior year's average direct loan volume. Pursuant to the merger between CoBank and AgBank, AgBank undertook a recapitalization transaction in order to align all associations with CoBank's stock investment requirement. The recapitalization involved the tax-free issuance of AgBank common stock to each association in exchange for an equal amount of attributed surplus previously allocated on a patronage basis to such association. The investment in CoBank is composed of patronage-based stock and purchased stock.

At December 31, 2011, the Association's investment in AgBank stock represented 21.8% of AgBank's total capital stock.

NOTE 5 PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	December 31,		
	2011	2010	2009
Buildings and improvements	$32,029	$28,255	$27,421
Furniture and equipment	12,961	11,614	8,390
Land	3,596	3,596	3,560
Construction in progress	3,451	4,901	3,814
Vehicles	894	563	336
Premises and equipment at cost	52,931	48,929	43,521
Less: accumulated depreciation	(16,037)	(13,909)	(12,477)
Premises and equipment, net	**$36,894**	**$35,020**	**$31,044**

The Association is obligated under various non-cancelable operating leases of certain vehicles and equipment. At December 31, 2011, future minimum lease payments for all non-cancelable leases are as follows:

2012	2013	2014	2015	2016	Thereafter	Total
$1,175	$525	$320	$157	$33	$1,504	$3,714

NOTE 6 OTHER PROPERTY OWNED

Gains and losses on other property owned, as reflected on the Consolidated Statement of Income, consist of the following:

	December 31,		
	2011	2010	2009
Gains			
Gains on sale	$1,653	$47	$28
Carrying value adjustments	1,293	2,986	–
Total gains	2,946	3,033	28
Losses			
Loss on sale	232	–	–
Carrying value adjustments	3,557	–	26
Operating expense, net	2,272	688	147
Total losses	6,061	688	173
Losses/(Gains) on other property owned, net	**$3,115**	**$(2,345)**	**$145**

NOTE 7 NOTES PAYABLE

The Association's indebtedness to AgBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets to AgBank and is governed by a General Financing Agreement (GFA), which provides a $3.9 billion line of credit. The GFA is subject to renewal periodically in accordance with normal business practice and requires the Association to comply with certain covenants. Substantially all borrower loans are match-funded with AgBank. Payments and disbursements are made on the note payable to AgBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by AgBank based on the terms and conditions of the borrowing. The weighted average interest rate was 2.62% at December 31, 2011. The line of credit expires on May 31, 2013; however, the Association expects renewal of the line of credit. Upon expiration of the line of credit, undisbursed amounts available under the line of credit expire, except for undisbursed outstanding commitments on loans which are not in default. The outstanding balance of the notes payable will continue until it has been fully discharged.

In conjunction with the merger as more fully explained in Note 2, the Association carries the liabilities assumed from the merger transaction at their fair value as of the acquisition date of the merger. The primary liability assumed was the note payable to AgBank. The difference between the book value and fair value of the AgBank note at acquisition date is amortized into interest expense during the estimated remaining life of the acquired loans, which are funded by the note payable. The unamortized premiums remaining at December 31, 2011, 2010 and 2009 were $9.8 million, $15.3 million, and $21.2 million, respectively.

The Association has the opportunity to commit funds with AgBank in the Earnings Stabilization Management Program at a fixed rate for a specified time frame. Participants in the program receive a fixed-rate credit on the committed funds balance that is classified as a reduction of interest expense. These committed funds, which are netted against the note payable to AgBank, as of December 31 follow:

	2011	2010	2009
Committed funds	$10,700	$20,300	$49,600
Average rates	2.50%	2.39%	1.93%

Under the Farm Credit Act, the Association is obligated to borrow from AgBank, unless AgBank gives approval to borrow elsewhere. The Association received approval from AgBank in 2006 to borrow from CoBank, ACB (CoBank). The Association, AgBank, and CoBank are parties to a memorandum of understanding (MOU) under which CoBank would extend funds, with the transaction-by-transaction consent of AgBank, to fund specified transactions. Such financing does not overlap with the funding received from AgBank. At any one time, the aggregate funded and unfunded transactions under the MOU cannot exceed $40 million. Each transaction is evidenced by a confirmation detailing the terms of that transaction and is consented to by AgBank. At December 31, 2011, there was $4.7 million in direct funding outstanding under the MOU. Effective January 1, 2012, the MOU was incorporated into the Association's GFA with CoBank.

NOTE 8 MEMBERS' EQUITY

A description of the Association's capitalization requirements, capital protection mechanisms, regulatory capitalization requirements and restrictions, and equities is provided below.

A. Stock and Participation Certificates

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in capital stock (for agricultural loans) or participation certificates (for rural home and farm-related business loans) in the Association as a condition of borrowing. In accordance with the Association's capitalization bylaws, the required investment is currently the lesser of $1,000 or 2% of the total borrower's commitment.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

B. Additional Paid in Capital

The additional paid in capital represents the excess value received over the par-value of capital stock and participation certificates issued, and arose from the issuance of American AgCredit capital stock and participation certificates in connection with the Association's acquisition of Farm Credit of the Heartland (as described in Note 2).

C. Regulatory Capitalization Requirements and Restrictions

FCA's capital adequacy regulations require the Association to maintain permanent capital of at least 7.0% of average risk-adjusted assets. Failure to meet the 7.0% capital requirement can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of risk-adjusted assets of 7.0% and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.50%. The Association's permanent capital, total surplus, and core surplus ratios at December 31, 2011, were 21.6%, 19.0%, and 17.8%, respectively.

The Association maintains a Capital Adequacy Plan (Plan) to identify key risk components of the Association's operations and estimates capital levels to compensate for those risks. The Plan establishes minimal levels for permanent, total, and core capital (as defined by FCA regulations) and sets optimal targets for those ratios. The target for the permanent capital ratio is greater than 15.0%. The target for total surplus ratio is greater than 13.0%. The target for the core capital ratio is greater than 11.0%. The Association's capital ratios at December 31, 2011, are all within, or have exceeded, these targets.

An existing regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. This regulation has not been utilized to date. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

D. Description of Equities

Class A Common Stock: (Nonvoting, at-risk, no shares outstanding.) Class A Common Stock may be issued as a patronage distribution or in exchange for a like number of shares of Class C Common Stock when said holder has fully retired his loan or loans with the Association and has not had a borrowing relationship with the Association for two years. Class A Common Stock may be converted to Class C Common Stock if the holder becomes a borrower eligible to own Class C Common Stock, and to Class F Participation Certificates if the holder becomes a borrower eligible to own Class F Participation Certificates.

Class C Common Stock: (Voting, at-risk, 1,201,311 shares outstanding, $5 par value.) Each owner of class C Common Stock is entitled to a single vote. Other classes of borrower equities do not provide voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock.

Class D Common Stock: (Nonvoting, at-risk, no shares outstanding, par value of $1,000.) Issued to AgBank or to any person through direct sale. Retirement is at the sole discretion of the Board of Directors.

Class F Participation Certificates: (Voting, at-risk, 28,068 outstanding shares, $5 par value.) Class F Participation Certificates may be issued or transferred to rural residents, persons furnishing farm-related services, or to other persons eligible to borrow for the purpose of qualifying for services offered by the Association who are not eligible to hold Class C Common Stock.

Class H Preferred Stock: Class H Preferred Stock may be issued to, and may be acquired by, members and equity holders who at the time of such issuance or acquisition, hold any class of common stock or participation certificates. Class H Preferred Stock is transferable only to another holder of Class H Preferred Stock, and then only after the transferor provides written notice to the Association in a form prescribed by the Association's Board. The holders of the H Stock are limited to voting on matters that would affect any preference accorded to the H Stock and any amendments that would authorize a new class of preferred stock. Each holder of the H Stock is entitled to receive dividends in an amount equal to a specified percentage ("Dividend Rate") as declared by the Board of Directors. The Dividend Rate is a per annum rate that may change monthly at the discretion of the Board, but is limited to 8.0% per annum. Dividends accrue daily and will accumulate until declared and paid in the form of additional shares of H Stock. The H Stock is redeemable at par plus cumulative unpaid dividends. At December 31, 2011, the Dividend Rate was 0.50%.

H Stock is considered "at risk" as redemption of the H Stock is at the discretion of the Board and such redemption is not assured due to future financial operational or regulatory limitations on the Association. In the event of liquidation or dissolution of the Association and after satisfaction of all liabilities, each share of H Stock is entitled to a first liquidation preference of any assets remaining, pro rata, to the extent of par value plus any accrued but unpaid dividends. At December 31, 2011, there were 104,965,567 shares of the H Stock outstanding at a par value of $1.00 per share.

The Association has the authority to issue other classes of stock, no shares of which are outstanding. The voting rights, duties, and liabilities of such classes of stock are similar to those discussed above.

Losses that result in impairment of capital stock and participation certificates will be allocated to the common classes of equity described above on a pro-rata basis and then to preferred stock. Upon liquidation of the Association, any assets remaining after the settlement of all liabilities will be distributed first to redeem the par value of equities, beginning with preferred stock. After the retirement of stock, any remaining assets will be distributed to holders of allocated surplus as evidenced by non-qualified written notices of allocation. Any assets remaining after such distribution will be shared pro-rata on a patronage basis by all common stock and certificate holders of record immediately before the liquidation distribution.

E. Patronage Distributions

The Association's bylaws provide for the payment of patronage distributions. All patronage distributions to a borrower shall be on such proportionate patronage basis as may be approved by the Association's Board of Directors, consistent with the requirement of Subchapter T of the Internal Revenue Code.

In December 2011, the Association's Board of Directors adopted a resolution establishing the distribution of 2011 patronage-sourced net earnings. The resolution established the cash dividend in the amount of 1.00% of the Association's borrower's average daily loan balances. This calculation resulted in a cash dividend of $34.7 million, which was distributed to qualified patrons in 2012. This amount was recognized as a liability on the Association's balance sheet at December 31, 2011.

Also in December 2011, the Association's Board of Directors adopted an Obligating Resolution to distribute 2012 patronage-sourced earnings to patrons of the Association, contingent upon the Association maintaining certain capital criteria.

Cash dividends of $26.2 million and $15.7 million were paid on the Association's patronage-sourced earnings for 2010 and 2009, respectively. These amounts were recognized as a liability on the Association's balance sheet at December 31 in the year they were declared and paid in the first quarter of the following year. The cash dividends represented 0.75% and 0.50% of the Association's borrower average daily loan balances for 2010 and 2009, respectively.

F. Unallocated Retained Earnings

Net income can be distributed annually in the form of cash or allocated retained earnings; it may also be retained as unallocated retained earnings. Thus, unallocated retained earnings include patronage-sourced net income that is retained each year. The Board of Directors must approve any use of unallocated retained earnings.

G. Other Comprehensive Income/(Loss)

The Association reports other comprehensive income/(loss) in its Consolidated Statement of Changes in Members' Equity. As more fully described in Note 11, other comprehensive income/(loss) results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits of $(3.4) million, $1.1 million, and $143,000 in 2011, 2010, and 2009, respectively. There were no other items affecting comprehensive income or loss.

NOTE 9 PATRONAGE DISTRIBUTION FROM SYSTEM INSTITUTIONS

Patronage paid by Farm Credit institutions to the Association follows:

	2011	2010	2009
AgBank	$32,225	$4,086	$559
CoBank	3,883	4,666	3,517
Total	**$36,108**	**$8,752**	**$4,076**

All patronage distributed from AgBank will be in cash, and patronage distributed from CoBank was in cash and stock.

NOTE 10 INCOME TAXES

The benefit for income taxes follows:

Year ended December 31,	2011	2010	2009
Current tax provision	$7	$3	$1
Deferred tax provision/(benefit)	6,091	(372)	(2,902)
Total provision/(benefit) for income taxes	**$6,098**	**$(369)**	**$(2,901)**

The following table quantifies the differences between the provision/(benefit) for income taxes and the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income of the Association.

Year ended December 31,	2011	2010	2009
Federal tax at statutory rate	$63,496	$27,542	$15,804
State tax, net	2	3	2
Tax-exempt FLCA income	(48,969)	(23,704)	(16,493)
Effect of tax-free recapitalization distribution from bank merger	(8,756)	–	–
Patronage dividends paid	(3,168)	(4,223)	(2,246)
Write-off of NOL carryforward	3,486	–	–
Other	7	13	32
Provision /(Benefit) for income taxes	**$6,098**	**$(369)**	**$(2,901)**

Deferred tax assets and liabilities result from the following:

Year Ended December 31,	2011	2010	2009
Gross deferred tax asset:			
Allowance for loan losses	$1,723	$3,642	$3,332
Deferred loan fees	780	1,121	973
Nonaccrual loan interest	790	1,134	1,217
Net operating loss carryforward	–	3,986	3,987
Gross deferred tax asset	3,293	9,883	9,509
Gross deferred tax liabilities:			
Mineral depletion	(73)	(71)	(69)
Net deferral asset before valuation allowance	3,221	9,812	9,440
Deferred tax asset valuation allowance	–	(500)	(500)
Net deferred tax asset	**$3,221**	**$9,312**	**$8,940**

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings. The valuation allowance shown in the table for 2010 and 2009 on the previous page reflects the uncertainty of these estimates and assumptions. In 2011, the Association determined the value of its Net Operating Loss ("NOL") carryforwards was de minimis inasmuch as they were unlikely to be used to offset future tax liabilities. Accordingly, those assets were written off and the related valuation allowance was eliminated. The Association will continue to evaluate the likely realization of these deferred tax assets and adjust the valuation allowance accordingly.

As a result of the merger of AgBank and CoBank, the Association received a recapitalization distribution of $75.2 million as a result of a tax-free reorganization.

The Association has no uncertain tax positions to be recognized as of December 31, 2011, 2010 and 2009.

The Association recognizes interest and penalties related to unrecognized tax benefits as an adjustment to income tax expense. There were no interest or penalties recognized in 2011, 2010 or 2009. The Association did not have any positions for which it is reasonably possible that the total amounts of unrecognized tax positions will significantly increase or decrease within the next 12 months. The tax years that remain open for federal and major state income tax jurisdictions are 2004 and forward.

NOTE 11 EMPLOYEE BENEFIT PLANS

The employees of the Association may participate in one of two District defined benefit pension plans – the Ninth Pension Plan (Ninth Plan) or the Eleventh Pension Plan (Eleventh Plan). The Ninth Plan was acquired with the Association merger. The plans are noncontributory and cover a significant number of employees. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. As a participant in the District's defined benefit plans, the Association funded $730,000 for 2011, $2.3 million for 2010, and $3.0 million for 2009, through its note payable to AgBank. Expenses for both the Ninth and Eleventh Plans included in salaries and employee benefits expense were $1.5 million for 2011, $3.3 million for 2010, and $3.6 million for 2009. Both pension plans have been closed to new participants. Additional financial information for the plans may be found in the District's Annual Report.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were $83,000 for 2011, $72,000 for 2010, and $48,000 for 2009. Additional financial information for this plan may be found in the District's Annual Report.

The Association participates in two District-wide nonqualified defined benefit Pension Restoration Plans that are unfunded. The purpose of the Pension Restoration Plans is to supplement a participant's benefits under the District's other retirement plans to the extent that such benefits are reduced by the limitations imposed by the Internal Revenue Code. Benefits payable under the Pension Restoration Plans are offset by the benefits payable from the Pension Plans. Pension Restoration Plan expenses included in salaries and employee benefits were $724,000 for 2011, $900,000 for 2010, and $803,000 for 2009.

FASB guidance requires the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans as an asset with an offsetting adjustment to accumulated other comprehensive income on the balance sheet. This guidance also requires that the benefit obligation and plan assets be measured as of the fiscal year-end. The funded status and the amounts recognized in the Consolidated Balance Sheet for the Association's Pension Restoration Plans follow:

	Nonqualified Pension Benefits		
	2011	**2010**	**2009**
Change in benefit obligation:			
Benefit obligation at beginning of the period	$6,627	$7,100	$4,601
Benefit obligation acquired in merger	–	–	1,726
Service cost	397	465	473
Interest cost	354	374	403
Net actuarial loss/(gain)	3,338	(1,046)	(41)
Benefits paid	(494)	(266)	(62)
Benefit obligation at December 31	**$10,222**	**$6,627**	**$7,100**
Amounts recognized in the Consolidated Balance Sheet consist of:			
Accrued benefit liability	$10,222	$6,627	$7,100
Net amount recognized	$10,222	$6,627	$7,100

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plans.

	2011	**2010**	**2009**
Net actuarial loss/(gain)	$3,026	$(327)	$808
Net amortization	–	–	(28)
Prior service costs	–	(12)	–
Total amount recognized in AOCI/loss	**$3,026**	**$(339)**	**$780**

An estimated net actuarial loss of $503,000 for the Pension Restoration Plans will be amortized into income during 2012.

The projected and accumulated benefit obligation for the Pension Restoration Plans at December 31 was as follows:

	2011	2010	2009
Projected benefit obligation	$10,222	$6,627	$7,100
Accumulated benefit obligation	$8,053	$5,216	$6,102

The net periodic pension expense for the defined benefit Pension Restoration Plans included in the Consolidated Statement of Income is composed of the following at December 31.

		Pension Benefits	
	2011	2010	2009
Components of net periodic benefit cost			
Service cost	$397	$465	$472
Interest cost	354	374	403
Net amortization and deferral	(29)	74	239
Net periodic cost	**$722**	**$913**	**$1,114**

Changes in benefit obligation recognized in accumulated other comprehensive income are included in the following table.

	2011	2010	2009
Current year net actuarial (gain)/loss	$3,338	$(1,046)	$(40)
Amortization of prior service cost/(credit)	12	16	16
Amortization of net actuarial (gain)/loss	15	(89)	(119)
Total recognized in other comprehensive (loss)/income	**$3,365**	**$(1,119)**	**$(143)**

Weighted average assumptions used to determine benefit obligation at December 31 follows:

		Pension Benefits	
	2011	2010	2009
Discount rate – Eleventh Plan	5.05%	5.60%	6.40%
Discount rate – Ninth Plan	5.10%	5.65%	6.35%
Rate of compensation increase – Eleventh Plan	4.50%	4.50%	4.50%
Rate of compensation increase – Ninth Plan	5.00%	5.00%	5.00%

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2012	2013	2014	2015	2016	2017–2021
$269	$546	$507	$1,288	$2,714	$6,626

The Association participates in the Farm Credit Foundations Ninth and Eleventh District Defined Contribution/401(k) Plans. Under these plans, the Association matches a certain percentage of employee contributions. The plans have two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plans. In these plans, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Under both plans, employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the Ninth and Eleventh Contribution Plans were $2.8 million in 2011, $2.5 million for 2010, and $1.1 million for 2009.

NOTE 12 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan transactions with directors or employees of the Association, their immediate families, and other organizations with which such directors or employees of the Association may be associated (related party borrowers). These loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board or employment.

Loan information to related parties for the years ended December 31 is shown below.

	2011	2010	2009
New loans	$18,381	$14,084	$10,117
Repayments	17,573	15,863	14,828
Loans no longer related parties	1,702	–	–
Loans acquired in merger	–	–	4,734
Ending balance	**$30,164**	**$31,058**	**$32,836**

In the opinion of management, none of these loans outstanding at December 31, 2011, involved more than a normal risk of collectability.

NOTE 13 REGULATORY ENFORCEMENT MATTERS

There are no regulatory enforcement actions in effect for the Association.

NOTE 14 COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest rate risk. These instruments include commitments to extend credit of $1.03 billion and standby letters of credit of $32.5 million at December 31, 2011, for which the contract amount represents the associated credit risk. The Association does not anticipate any material losses as a result of these transactions.

Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. At any time, the Association has outstanding a significant number of commitments to extend credit. The Association also provides standby letters of credit to guarantee the performance of customers to third parties. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Credit-related financial instruments have off-balance-sheet credit risk because only origination fees (if any) are recognized in the Consolidated Balance Sheet (as other liabilities) for these instruments until the commitments are fulfilled or expire. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association writes adjustable-rate loan contracts with embedded interest-rate caps and floors in order to manage its interest rate exposure. These embedded interest-rate caps and floors enable both borrowers and the Association to transfer, modify, or reduce their interest rate risk.

NOTE 15 FAIR VALUE MEASUREMENTS

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

	Hierarchy Level 3	Total Fair Value	Total Gain/(Loss)
2011			
Loans	$18,152	$18,152	$(2,906)
Other property owned	$12,075	$12,075	$(1,020)
2010			
Loans	$6,379	$6,379	$(1,141)
Other property owned	$27,283	$27,283	$3,036
2009			
Loans	$20,805	$20,805	$6,561
Other property owned	$4,730	$4,730	$69

The Association has no assets or liabilities measured at fair value on a recurring basis for the periods presented.

Valuation Techniques

As more fully discussed in Note 2, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement:

Loans: For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established and the net loan is reported at its fair value.

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

NOTE 16 DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2011, 2010, and 2009.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding 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.

The estimated fair values of the Association's financial instruments at December 31 are as follows:

	2011		2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans, net of allowance	$4,378,946	$4,337,742	$4,556,212	$4,510,723	$4,735,077	$4,690,826
Cash	$18,070	$18,070	$15,247	$15,247	$14,440	$14,440
Investment in AgBank	$194,567	$194,567	$119,327	$119,327	$119,327	$119,327
Investment in CoBank	$15,320	$15,320	$13,598	$13,598	$11,622	$11,622
Financial liabilities:						
Notes payable	$3,454,143	$3,455,325	$3,696,605	$3,673,095	$3,925,037	$3,912,589
Funds Held accounts	$17,501	$17,501	$11,414	$11,414	$7,001	$7,001
Commitments to extend credit and standby letters of credit	–	$1,950	–	$1,673	–	$1,296

Following is a description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value:

A. Loans: Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Association's loan rates as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

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

For loans in a nonaccrual status that are current as to principal and interest, and non-current nonaccrual loans that are adequately collateralized (acquisition of the collateral is not anticipated), fair value is estimated as described above, with appropriately higher interest rates that reflect the uncertainty of continued cash flows. For the remainder of nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate, which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of the net realizable value.

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

C. Investment in AgBank: Estimating the fair value of the Association's investment in AgBank is not practicable because the stock is not traded. As described in Note 5, the investment is a requirement of borrowing from AgBank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheet. The Association owns 21.8% of the issued stock of AgBank as of December 31, 2011. As of that date, AgBank's assets totaled $25.1 billion and shareholders' equity totaled $1.3 billion. AgBank's earnings were $129.1 million during 2011.

D. Investment in CoBank: Estimating the fair value of the Association's investment in CoBank is not practicable because the stock is not traded. The investment is a requirement of borrowing from CoBank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheet.

E. Notes Payable: The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets), which they fund. 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 notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

F. Funds Held Accounts: The carrying value is a reasonable estimate of fair value as these funds are held in cash.

G. Commitments to Extend Credit and Standby Letters of Credit: The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

NOTE 17 SUBSEQUENT EVENTS

On January 1, 2012, the Association merged operations with Farm Credit Services of the Mountain Plains (Mountain Plains). All shareholders of Mountain Plains received capital stock in American AgCredit in exchange for their Mountain Plains stock, which was then canceled. This exchange was made at the stock's par value. The Association's regulator, the Farm Credit Administration, issued amended charters for the merged association encompassing the territories previously served by the separate associations. The merger was accounted for using the acquisition method of accounting. Pro forma financial information for the combined association is shown below.

At December 31, 2011	American AgCredit	Mountain Plains	(Unaudited) Combined
Loans, net of allowance	$4,378,946	$1,057,085	$5,436,031
Investment in AgBank	194,567	39,390	233,957
Premises and equipment	34,723	6,133	40,856
Other assets	110,487	28,212	138,699
Total assets	**$4,718,723**	**$1,130,820**	**$5,849,543**
Notes payable	$3,454,143	$798,242	$4,252,385
Patronage payable	34,761	13,000	47,761
Other liabilities	68,911	32,576	101,487
Total liabilities	**3,557,815**	**843,818**	**4,401,633**
Stock	111,113	1,429	112,542
Retained surplus	1,049,795	285,573	1,335,367
Total equity	**1,160,908**	**287,002**	**1,447,909**
Total liabilities and equity	**$4,718,723**	**$1,130,820**	**$5,849,543**

For the Year Ended December 31, 2011	American AgCredit	Mountain Plains	(Unaudited) Combined
Net interest income	$128,245	$28,821	$157,066
US AgBank patronage	32,225	11,223	43,448
Recapitalization distribution from AgBank	75,240	11,241	86,481
Other non-interest income	21,041	1,091	22,132
Operating expenses	(75,520)	(15,615)	(91,135)
Benefit for loan losses	5,523	254	5,777
(Provision) / Benefit for income taxes	(6,098)	101	(5,997)
Net income	**$180,656**	**$37,116**	**$217,772**

The Association has evaluated subsequent events through March 1, 2012, which is the date the financial statements were issued, and no material subsequent events were identified other than the merger noted above.

Other Regulatory Disclosure

Financial Statements

The Association will post the Annual Report and Quarterly Reports to Shareholders on the Association's website (www.AgLoan.com) approximately four to six weeks after the end of each calendar quarter for the Quarterly Report and 75 days after year-end for the Annual Report. Hard copies of these reports may be obtained free of charge by contacting American AgCredit, P.O. Box 1120, Santa Rosa, CA 95402 or telephone (800) 800-4865.

Legal Proceedings and Enforcement Actions

There are no matters that came to the attention of the Board of Directors or management regarding the involvement of current directors or senior officers in specified legal proceedings that are required to be disclosed. There are no enforcement actions against the Association.

Relationship with Independent External Auditors

There has been no change in independent external auditors and no material disagreements on any matters of accounting principles or financial statement disclosures during the period.

Young, Beginning, and Small Farmer Program

American AgCredit is committed to providing sound and dependable credit to young, beginning, and small (YBS) farmers and ranchers. Annual marketing goals are established to increase market share of loans to YBS farmers and ranchers. Quarterly reports are provided to the Board detailing the number, volume, and credit quality of the YBS loans we have financed.

To facilitate credit, we have adopted financing programs and use government-guaranteed loan programs. We are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers.

YBS farmers and ranchers are defined as:

Young Farmer: A farmer or rancher who was age 35 or younger as of the date the loan was originally made.

Beginning Farmer: A farmer or rancher who had 10 years or less farming or ranching experience as of the date the loan was originally made.

Small Farmer: A farmer or rancher who normally generated less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

To ensure these groups are adequately serviced, demographic research known as The Ag Census is completed by the U.S. Department of Agriculture every five years, and those demographics are compared to our borrower base. Part of adequately servicing these segments is understanding how farming is changing within the Association's lending territory.

The latest data available is from the 2007 Ag Census, which was released in February 2009. Compared to the 2002 Ag Census, the 2007 research showed the number of farms overall, as well as the number of beginning and small farmers, has remained relatively stable, with very slight growth ranging from 2% –5% in the counties in which American AgCredit operates. However, there has been a continuing shift in farm demographics in the Young Farmer category. The total number of young farmers has been nearly cut in half, and the ratio of young farmers to farms overall has spread even further. This is a general reflection of the overall population, combined with some young farmers aging out of the category, as well as the challenge in the credit market for riskier investments with younger people.

The following table outlines the percentage of Young and Beginning loans in the loan portfolio (by number) as of December 31, 2011, compared to the total number of loans in the portfolio.

Young and Beginning Farmers and Ranchers – Number/Volume of Loans Outstanding

Category (Dollars in thousands)	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
Total loans and commitments outstanding at year-end	11,007	–	$5,458,012	–
Young farmers and ranchers	1,404	12.76%	$325,142	5.96%
Beginning farmers and ranchers	2,009	18.25%	$575,173	10.54%

The following table provides a breakdown of small farmer and rancher loans by size as of December 31, 2011.

Small Farmers and Ranchers – Number/Volume of Loans Outstanding by Loan Size

Number/Volume Outstanding (Dollars in thousands)	$0 – $50,000	$50,001 – $100,000	$100,001 – $250,000	$250,001 and Greater
Total number of YBS loans and commitments outstanding at year-end	2,956	1,950	2,552	3,549
Total number of loans to small farmers and ranchers	1,858	1,159	1,099	417
Number of loans to small farmers and ranchers as a % of total number of YBS loans	62.86%	59.44%	43.06%	11.75%
Total YBS loan volume outstanding at year-end	$71,735	$144,869	$422,840	$4,818,804
Total loan volume to small farmers and ranchers	$47,031	$84,916	$171,915	$218,385
Loan volume to small farmers and ranchers as a % of total YBS loan volume	65.56%	58.62%	40.66%	4.53%

Borrower Privacy

As a member-owner of this institution, your privacy and the security of your personal information are vital to our continued ability to serve your ongoing credit needs. FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers, and employees. FCA regulations specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.

Board of Directors

It is the Association's policy to reimburse directors and senior officers for mileage, as well as documented business expenses while serving in an official capacity. A copy of the Association's reimbursement policies is available to shareholders upon request. There were six regularly scheduled board meetings in 2011. Committee meetings are called as needed to address Association business.

The following identifies all Board members who served during the year and describes the business activities and principal occupation for the past five years, as well as current committee assignments, for those directors serving on the Board during the year.

David Santos, Chairman

Term of Office: 2007–2013
Committee: Executive

Mr. Santos is an apricot and cherry farmer in Stanislaus County, CA. He is a partner of Lucich & Santos Farms and Blossom Hill Packing Company, a packing and marketing company. He is also a member of the Apricot Producers Board. He attended six Board meetings, three committee meetings and six other meetings for which he was compensated $48,700.

Frank Stonebarger, Vice Chairman

Term of Office: 2010–2012
Committee: Executive

Mr. Stonebarger produces walnuts, cherries, and apples and provides custom farming in Stockton, CA. He attended six Board meetings, three committee meetings, and one other meeting for which he was compensated $33,200.

Eric Allen, Appointed Director

Term of Office: 2010–2012
Committee: Audit

Mr. Allen resides in Reno County, KS and has been a public accountant for 36 years. He currently manages farm interests producing corn, wheat, pinto beans, and milo. In 2004, he retired from Kansas State University after serving as an agricultural economist for 31 years. He attended six Board meetings, six committee meetings, and two other meetings for which he was compensated $38,800.

James Boyd, Director

Term of Office: 2010–2013
Committee: Audit

Mr. Boyd produces potatoes, grain, and mint near Tulelake, CA. He is a member of the Farm Bureau and Tulelake Grower's Association. He attended six Board meetings, six committee meetings, and four other meetings for which he was compensated $25,650.

Peter Bulthuis, Director

Term of Office: 2010–2013
Committee: Audit

Mr. Bulthuis produces wine grapes, cherries, and almonds near Ripon, CA. He also co-owns Mid Valley Ag Services, a farm chemical and supply business. He is a member of California Almond Growers, Wine Grape Growers, California Association of Pest Control Advisors, Nisei Farmers League, and Farm Bureau. He attended five Board meetings, five committee meetings, and one other meeting for which he was compensated $20,990.

Clinton Eck, Director

Term of Office: 2010–2013
Committee: Compensation

Mr. Eck and his family operate a diversified crop and livestock farm along with a commercial hay-grinding business in Kingman, KS. He attended six Board meetings and six committee meetings for which he was compensated $24,400.

John Engelland, Director

Term of Office: 2011–2014
Committee: Compensation and Executive

Mr. Engelland resides in Rice County, KS and farms irrigated and dryland crops and is engaged in custom farming and ranching with cow-calf, stocker/background, and finishing cattle. He also serves on the board of Sterling Historic Preservation Board and National Advisory Council – Sterling College, Sterling, KS. He attended five Board meetings, eight committee meetings and one other meeting for which he was compensated $21,140.

George Fontes, Director

Term of Office: 2011–2014
Committee: Compensation and Executive

Mr. Fontes owns and operates Fontes Farms LLC, a farm management and aluminum irrigation pipe leasing and repair business in Salinas, CA. He recently retired from Comgro Inc., where he served as president and co-owner. He also serves on the board of the Monterey County Farm Bureau. He attended six Board meetings, nine committee meetings, and two other meetings for which he was compensated $29,875.

Patrick Garvey, Director

Term of Office: 2010–2012
Committee: Governance

Mr. Garvey is a grape grower in Napa County, CA, and is vice president of Flora Springs Winery. He is a director of Napa County's Farmworker Commission. He attended six Board meetings, six committee meetings and one other meeting for which he was compensated $20,990.

Jerold Harris, Appointed Director

Term of Office: 2011–2014
Committee: Compensation and Executive

Mr. Harris is currently retired from his former position as President and CEO of U.S. AgBank in Wichita, KS. He attended six Board meetings and nine committee meetings for which he was compensated $37,800.

Alan List, Director

Term of Office: 2011–2013
Committee: Compensation

Mr. List operates a hay, seed, and grain business in Lovelock, NV. He serves as director of List Cattle Company and Lovelock Hay Market, Inc. He attended six Board meetings and six committee meetings for which he was compensated $24,400.

Mary Borba Parente, Director

Term of Office: 2010–2012
Committee: Governance

Ms. Parente is sole owner of L & M Dairy in San Bernardino County, CA. She serves on the board of directors for the Dairy Council of California and is an alternate board member of the California Milk Advisory Board. She attended six Board meetings and six committee meetings for which she was compensated $24,400.

Board of Directors (continued)

Greg Ringler, Director

Term of Office: 2011–2013
Committee: Audit

Mr. Ringler is involved in diversified operations consisting of wheat, milo, beans, alfalfa, and beef cattle. He attended six Board meetings, eight committee meetings, and one other meeting for which he was compensated $25,401.

Joe Schoonover, Director

Term of Office: 2010–2012
Committee: Governance and Executive

Mr. Schoonover resides in Pratt County, KS where he has been farming since 1968. He also serves on the U.S. AgBank Stockholder Advisory Committee and the U.S. AgBank, FCB District Farm Credit Council. He attended six Board meetings, six committee meetings, and two other meetings for which he was compensated $25,400.

Larry Solari, Appointed Director

Term of Office: 2011–2012
Committee: Audit and Executive

Mr. Solari is a CPA and a partner of Croce & Company Accountancy Corporation in Stockton, CA. He also serves on the San Joaquin County Assessments Appeals Board and the Lincoln School District Advisory Board. He attended six Board meetings and nine committee meetings for which he was compensated $43,200.

Thomas Teixeira, Director

Term of Office: 2011–2013
Committee: Compensation

Mr. Teixeira farms field and row crops in Merced County, CA. He attended six Board meetings, seven committee meetings, and two other meetings for which he was compensated $25,275.

Alan Weeks, Director

Term of Office: Deceased
Committee: Audit

Mr. Weeks passed away in May 2011, prior to which he attended one Board meeting and three committee meetings for which he was compensated $12,200.

Dennis Williams, Director

Term of Office: 2010–2013
Committee: Governance

Mr. Williams farms and ranches in Noble County, OK. His diversified family operation consists of wheat and corn as cash crops integrated with a stocker cattle and cow-calf program. He attended six Board meetings and six committee meetings for which he was compensated $24,400.

For 2011, directors were compensated for their services based on annual retainers as follows:

Chairman	$43,200
Vice Chairman	$32,500
Outside Director	$37,800
Regular Member	$24,400
Elected Committee Chairman	$27,100
Outside Director Committee Chairman	$43,200

Retainer amounts are adjusted for meeting absences or attendance at meetings in excess of scheduled Board meetings. The total compensation paid to directors for 2011, as described above, amounted to $521,120. The aggregate amount of compensation and reimbursements for travel, subsistence, and other related expenses for all directors were $874,000 for 2011, $897,000 for 2010, and $797,000 for 2009.

Senior Officers

Ron Carli, Chief Executive Officer
Mr. Carli has served as Chief Executive Officer and President for the past 30 years and has a total of 33 years of Farm Credit experience.

Bruce L. Richardson, Chief Credit Officer/ Chief Operating Officer
Mr. Richardson has served in the capacity of Chief Credit Officer for the past 25 years and has a total of 36 years of Farm Credit experience.

Roger Bastow, Chief Administrative Officer
Mr. Bastow has 20 years of Farm Credit experience.

Chris Call, Chief Financial Officer
Mr. Call is a CPA and has served as Chief Financial Officer for the past 19 years.

Wlodek Kulawiak, Chief Technology Officer
Mr. Kulawiak has served as Chief Technology Officer for three years and has 26 years of experience in the technology field.

Floyd Ridenhour, Chief Administrative Officer
Mr. Ridenhour has been employed as Chief Administrative Officer for the past 19 years and has a total of 32 years of Farm Credit experience.

Stephan Silen, General Counsel
Mr. Silen has served as General Counsel for the past six years. He has been practicing law for 42 years.

Regional/Departmental Senior Vice Presidents

William "Bud" Bensley
Valley District

Byron Enix
Heartland Region

Robert LaBrier
Southern District

Terry Lindley
Marketing

Sean O'Day
Northern District/ Capital Markets

Kathy Wheelock
Risk Management

Lindsay Wurlitzer
Central District

The aggregate annual salaries during the fiscal year 2011 of the five most highly paid officers/employees amounted to $3.5 million. Officers of the Association, as well as all other employees, participate in an Incentive Compensation Plan that is payable upon the achievement of pre-established performance goals and at the discretion of the Board of Directors. Disclosure of total compensation paid during the last fiscal year to any senior officer, or to any other employee whose compensation is among the five highest amounts paid by the Association, is included in the Annual Meeting Information Statement sent to shareholders and is available to the public at the Association's offices upon request. Additional information on senior officer compensation is included in the Association Annual Meeting Information Statement supplied to each shareholder of the Association.

The Association's policies on loans to and transactions with its senior officers and directors are incorporated herein by reference from Note 12 to the financial statements entitled "Related Party Transactions" included in the Annual Report to Shareholders. No loans to directors, their immediate families, and affiliated organizations at December 31, 2011, involved more than a normal risk of collectability. There were no loans to senior officers at December 31, 2011.

Office Locations

ADMINISTRATIVE OFFICE
200 Concourse Boulevard, Santa Rosa, CA 95403-8258 • (800) 800-4865 • AgLoan.com

CALIFORNIA

Alturas
403 E. Highway 395
Alturas, CA 96101
(530) 233-4304

Eureka
5560 S. Broadway
Eureka, CA 95503
(707) 445-8871

Indio
83-057 Requa Avenue
Indio, CA 92201
(760) 342-4726

Merced
711 W. 19th Street
Merced, CA 95340
(209) 384-1050

Oakdale
700 N. Yosemite Avenue
Oakdale, CA 95361
(209) 847-0353

Ontario
1910 S. Archibald, Suite U-101
Ontario, CA 91761
(909) 947-2371

Petaluma
1345 Redwood Way
Petaluma, CA 94954
(707) 793-9023

Roseville
2140 Professional Drive, Suite 205
Roseville, CA 95661
(916) 784-1060

St. Helena
1101 Vintage Avenue
St. Helena, CA 94574
(707) 963-9437

Salinas
924 E. Blanco Road
Salinas, CA 93901
(831) 424-1756

Santa Rosa
4845 Old Redwood Highway
Santa Rosa, CA 95403
(707) 545-7100

Stockton
2345 E. Earhart Avenue
Stockton, CA 95206
(209) 944-7478

Temecula
42429 Winchester Road
Temecula, CA 92590
(951) 296-0175

Tulelake
356 Main Street
Tulelake, CA 96134
(530) 667-4236

Turlock
3201 W. Monte Vista Road
Turlock, CA 95380
(209) 667-5101

Ukiah
455 E. Gobbi Street
Ukiah, CA 95482
(707) 462-6531

Yreka
809 Fourth Street
Yreka, CA 96097
(530) 842-1304

COLORADO

AS OF JANUARY 2012

Durango
850 2nd Avenue
Durango, CO 81301
(800) 678-6828

Grand Junction
2452 F Road, Suite 101
Grand Junction, CO 81505
(800) 962-2482

Greeley
4505 29th Street
Greeley, CO 80634
(800) 799-6545

Montrose
1540 East Niagara
Montrose, CO 81401
(800) 654-8272

KANSAS

Concordia
904 Broadway
Concordia, KS 66901
(785) 243-4689

El Dorado
2740 W. Central
El Dorado, KS 67042
(316) 321-2707

Hutchinson
1902 E. 23rd Street
Hutchinson, KS 67502
(620) 663-3305

Kingman
435 N. Main
Kingman, KS 67068
(620) 532-5912

Larned
324 Main Street, Suite B
Larned, KS 67550
(620) 285-2193

Pratt
706 S. Main
Pratt, KS 67124
(620) 672-7406

Salina
660 Westport Boulevard
Salina, KS 67402
(785) 825-4641

Wichita
7940 W. Kellogg Drive
Wichita, KS 67277
(316) 721-1100

NEVADA

Elko
978 Commercial Street
Elko, NV 89801
(775) 738-8496

Fallon
1440 W. Williams Avenue
Fallon, NV 89406
(775) 423-3136

Reno
255 W. Peckham Lane
Reno, NV 89509
(775) 825-7282

OKLAHOMA

Ponca City
1909 E. Lake Road
Ponca City, OK 74602
(580) 765-5690

Weatherford
1501 Lera Drive, Suite 4
Weatherford, OK 73096
(580) 772-3443

OREGON

Lake Oswego
5000 Meadows Road, Suite 365
Lake Oswego, OR 97035
(503) 639-7563

All owned office buildings and land are pledged to the U.S. AgBank as collateral for the note payable.

American AgCredit®

MONEY FOR AGRICULTURE

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