# ALABAMA AG CREDIT, ACA

## 2012
## Quarterly Report
## 2nd Quarter

## For the Quarter Ended June 30, 2012

Part of the Farm Credit System

## REPORT OF MANAGEMENT

The consolidated financial statements of Alabama Ag Credit, ACA (Association) are prepared by management, who are responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements.

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

The audit committee of the board of directors has oversight responsibility for the Association's system of internal controls and financial reporting. The audit committee consults regularly with management and meets periodically with the independent auditors and the internal auditor to review the scope and results of their work. The independent auditors and internal auditor have direct access to the audit committee.

The undersigned certify that, to the best of our knowledge and belief, the consolidated financial statements and other financial information included in this quarterly report reliably present the financial condition of Alabama Ag Credit, ACA and the results of its operations for the periods shown.

Douglas Thiessen, President/Chief Executive Officer
August 2, 2012

W. Thomas Dozier, III, Chairman, Board of Directors
August 2, 2012

M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
August 2, 2012

J.K. Love, CPA, Chairman, Audit Committee
August 2, 2012

# ALABAMA AG CREDIT, ACA
# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and six months ended June 30, 2012. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2011 Annual Report of the Association.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

**Results of Operations:**

The Association had net income of $3,993,194 and $7,404,130 for the three and six months ended June 30, 2012, as compared to net income of $2,977,788 and $5,686,377 for the same periods in 2011 reflecting an increase of 34.1 and 30.2 percent, respectively. Net interest income was $5,309,632 and $10,626,429, respectively, for the three and six months ended June 30, 2012, compared to $4,955,957 and $9,933,295 for the same periods in 2011. Interest income for the first six months of 2012 decreased by $49,928 or 0.3 percent from the same period of 2011, primarily due to decreases in yields, offset by an increase in average loan volume. Interest expense for the first six months of 2012 decreased by $743,062, or 10.3 percent, from the same period of 2011 due to a decrease in interest rates, offset partially by an increase in average debt volume. Average loan volume for the second quarter of 2012 was $683,255,547, compared to $663,810,467 in the second quarter of 2011.

Noninterest income for the three and six months ended June 30, 2012 increased by $563,919 and $715,795, or 214.3 percent and 126.1 percent, respectively, over the same periods of 2011. The increase is due primarily to the receipt of a refund of excess insurance reserves from the Farm Credit Insurance Corporation's (FCSIC) Insurance Fund.

Noninterest expenses for the three and six months ended June 30, 2012, decreased by $158,734 and $46,135, or 7.7 percent and 1.1 percent, respectively, as compared to the same periods of 2011. The decrease is due primarily to losses on acquired property that were recorded in the first six months of 2011 as a result of decreases in the value of the properties as compared to minimal losses that were recorded on the sales of acquired properties in the first six months of 2012. Salary and benefit costs increased for the first six months of 2012 compared to the first six months of 2011. The primary reason for the increase in these costs is from hiring three new employees. This was offset by a decrease in actuarially-determined, required contributions to the defined benefit (DB) retirement plan. For more information on the DB plan, refer to the 2011 Annual Report and Note 7, "Employee Benefit Plans," to the consolidated financial statements in this quarterly report.

The Association's provision for loan loss was $232,654 and $447,443 for the quarter and six months ended June 30, 2012 as compared to $171,732 and $740,132 for the same periods in 2011. While the overall number of loans and related loss exposures for the first six months of 2012 remained relatively stable compared to the same period of 2011, the decrease in provision expense in 2012 was due to provision expense being booked in the first six months of 2011 on one large participation credit. The Association recognized charge-offs of $516,349 and $690,997 for the three and six months ended June 30, 2012, and charge-offs of $61,859 and $317,093 for the same periods in 2011. The Association has recorded recoveries of $19,059 for the three and six months ended June 30, 2012 as compared to no recoveries being recorded for the same periods in 2011. The Association's allowance for loan losses was 0.6 percent and 0.6 percent of total loans outstanding as of June 30, 2012, and 2011, respectively.

The Association's return on average assets for the six months ended June 30, 2012, was 2.13 percent compared to 1.69 percent for the same period in 2011. The Association's return on average equity for the six months ended June 30, 2012, was 11.89 percent, compared to 9.82 percent for the same period in 2011.

**Loan Portfolio:**

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive prime- and LIBOR-based, fixed and adjustable interest rates and loan maturities ranging up to 40 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with seasonal cash-flow capabilities of the borrower.

Total loans outstanding at June 30, 2012, stated at recorded investment (principal less funds held), were $681,588,629 compared to $677,171,345 at December 31, 2011, reflecting an increase of 0.7 percent. The major commodities within the Association's loan portfolio are timber, cattle, poultry and field crops.

The following table reflects the credit quality of the Association's loan volume as of:

| | **June 30, 2012** | December 31, 2011 |
|---|---|---|
| Acceptable | **94.4 %** | 94.6 % |
| Special Mention | **1.8 %** | 2.0 % |
| Substandard | **3.8 %** | 3.4 % |
| Total | **100.0 %** | 100.0 % |

**Risk Exposure:**

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

| | **June 30, 2012** | | December 31, 2011 | |
|---|---|---|---|---|
| | **Amount** | **%** | Amount | % |
| Nonaccrual | **$ 17,640,047** | **88.0%** | $ 15,128,482 | 80.0% |
| 90 days past due and still accruing interest | **-** | **0.0%** | 166,912 | 0.9% |
| Formally restructured | **1,356,311** | **6.8%** | 1,383,191 | 7.3% |
| Other property owned, net | **1,056,337** | **5.2%** | 2,236,022 | 11.8% |
| Total | **$ 20,052,695** | **100.0%** | $ 18,914,607 | 100.0% |

At June 30, 2012 loans that were considered impaired were $18,996,358, compared to $16,678,585 at December 31, 2011. This represents 2.8 percent and 2.5 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. Total nonaccrual loans as of June 30, 2012 increased compared to December 31, 2011 as economic deterioration resulted in the movement of several loans to nonaccrual status, due to management's belief that the Association will not receive all principal and interest according to the original terms of the loans.

**Liquidity and Funding Sources:**

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations. The following schedule summarizes the Association's borrowings.

| | **June 30, 2012** | December 31, 2011 |
|---|---|---|
| Note payable to the Bank | **$ 566,352,661** | $ 565,366,959 |
| Accrued interest on note payable | **1,033,673** | 1,165,118 |
| Total | **$ 567,386,334** | $ 566,532,077 |

**Capital Resources:**

The Association's capital position increased by $7,421,497 at June 30, 2012, compared to December 31, 2011. The Association's debt as a ratio to members' equity was 4.44:1 as of June 30, 2012, compared to 4.74:1 as of December 31, 2011.

In December 2011, the board declared a $5,450,000 cash patronage to be paid to stockholders from the Association's 2011 earnings. The patronage distribution was completed in March 2012.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at June 30, 2012, was 17.1 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at June 30, 2012, were 16.5 and 16.5 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

**Significant Recent Accounting Pronouncements:**

Information regarding significant recent accounting pronouncements, required to be disclosed, is incorporated herein by reference to Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report.

**Relationship with the Farm Credit Bank of Texas:**

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Consolidated Financial Statements contained in the December 31, 2011 Annual Report of Alabama Ag Credit, ACA more fully describe the Association's relationship with the Bank.

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

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Alabama Ag Credit, ACA, P.O. Box 241687, Montgomery, Alabama, 36124-1687, or by calling (334) 270-8687. Copies of the reports can also be requested by e-mailing *andra.wolf@AlabamaAgCredit.com*. The Association's quarterly stockholder reports are available on its web site at *www.AlabamaAgCredit.com* approximately 40 days after each quarter end, and the annual stockholder report is available on its web site 75 days after the fiscal year end. Copies of the annual stockholder report can also be requested 90 days after the fiscal year end.

## ALABAMA AG CREDIT, ACA

## CONSOLIDATED BALANCE SHEET

| | June 30, 2012 (unaudited) | December 31, 2011 |
|---|---|---|
| **ASSETS** | | |
| Cash | **$ 10,523** | $ 10,555 |
| Loans | **681,588,629** | 677,171,345 |
| Less: allowance for loan losses | **4,144,965** | 4,339,460 |
| Net loans | **677,443,664** | 672,831,885 |
| Accrued interest receivable | **6,592,574** | 6,524,887 |
| Investment in and receivable from the Bank: | | |
| Capital stock | **11,215,710** | 11,215,710 |
| Accrued patronage receivable | **282,660** | 158,585 |
| Other | **394,614** | 1,031,617 |
| Other property owned, net | **1,056,337** | 2,236,022 |
| Premises and equipment | **2,557,411** | 2,608,114 |
| Other assets | **593,097** | 246,911 |
| Total assets | **$ 700,146,590** | $ 696,864,286 |
| **LIABILITIES** | | |
| Note payable to the Bank | **$ 566,352,661** | $ 565,366,959 |
| Accrued interest payable | **1,033,673** | 1,165,118 |
| Drafts outstanding | **1,294,837** | 343,399 |
| Patronage distributions payable | **800** | 5,450,032 |
| Other liabilities | **2,669,805** | 3,165,461 |
| Total liabilities | **571,351,776** | 575,490,969 |
| **MEMBERS' EQUITY** | | |
| Capital stock and participation certificates | **4,038,250** | 4,010,440 |
| Unallocated retained earnings | **124,887,941** | 117,483,811 |
| Accumulated other comprehensive income (loss) | **(131,377)** | (120,934) |
| Total members' equity | **128,794,814** | 121,373,317 |
| Total liabilities and members' equity | **$ 700,146,590** | $ 696,864,286 |

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

## ALABAMA AG CREDIT, ACA

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **INTEREST INCOME** | | | | |
| Loans | **$ 8,480,548** | $ 8,568,936 | **$ 17,090,290** | $ 17,140,218 |
| **INTEREST EXPENSE** | | | | |
| Note payable to the Bank | **3,170,916** | 3,612,979 | **6,463,861** | 7,206,923 |
| Net interest income | **5,309,632** | 4,955,957 | **10,626,429** | 9,933,295 |
| **PROVISION FOR LOSSES** | | | | |
| Provision for loan losses | **232,654** | 171,732 | **477,443** | 740,132 |
| Net income after provision for losses | **5,076,978** | 4,784,225 | **10,148,986** | 9,193,163 |
| **NONINTEREST INCOME** | | | | |
| Patronage income from the Bank | **202,601** | 207,975 | **408,653** | 416,820 |
| Loan fees | **24,862** | 53,916 | **217,431** | 103,337 |
| Financially related services income | **668** | 810 | **1,567** | 1,872 |
| Gain on sale of premises and equipment, net | **425** | 444 | **12,372** | 15,113 |
| Other noninterest income | **598,508** | - | **643,373** | 30,459 |
| Total noninterest income | **827,064** | 263,145 | **1,283,396** | 567,601 |
| **NONINTEREST EXPENSES** | | | | |
| Salaries and employee benefits | **1,243,180** | 1,251,984 | **2,627,334** | 2,567,616 |
| Directors' expense | **68,701** | 75,090 | **171,896** | 151,405 |
| Purchased services | **103,422** | 158,130 | **196,847** | 316,109 |
| Travel | **114,923** | 120,894 | **200,723** | 194,162 |
| Occupancy and equipment | **115,854** | 87,126 | **221,431** | 170,504 |
| Communications | **25,321** | 24,271 | **55,107** | 50,097 |
| Advertising | **62,485** | 57,092 | **118,892** | 96,459 |
| Public and member relations | **55,827** | 33,088 | **105,989** | 79,735 |
| Supervisory and exam expense | **60,711** | 59,026 | **121,421** | 118,051 |
| Insurance Fund premiums | **68,626** | 82,590 | **236,463** | 237,086 |
| Other noninterest expense | **40,420** | 47,612 | **71,977** | 80,028 |
| Loss on other property owned, net | **18,718** | 158,813 | **69,324** | 184,732 |
| CMS expense reimbursements | **(67,340)** | (86,134) | **(169,152)** | (171,597) |
| Total noninterest expenses | **1,910,848** | 2,069,582 | **4,028,252** | 4,074,387 |
| **NET INCOME** | **3,993,194** | 2,977,788 | **7,404,130** | 5,686,377 |
| Other comprehensive income: | | | | |
| Change in postretirement benefit plans | **(5,221)** | (6,994) | **(10,443)** | (13,988) |
| **COMPREHENSIVE INCOME** | **$ 3,987,973** | $ 2,970,794 | **$ 7,393,687** | $ 5,672,389 |

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

## ALABAMA AG CREDIT, ACA

## CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

| | Capital Stock/ Participation Certificates | Unallocated Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|---|---|---|---|---|
| Balance at December 31, 2010 | $ 3,875,435 | $ 109,810,440 | $ (63,886) | $ 113,621,989 |
| Net income | - | 5,686,377 | - | 5,686,377 |
| Other comprehensive income | - | - | (13,988) | (13,988) |
| Capital stock/participation certificates issued | 253,700 | - | - | 253,700 |
| Capital stock/participation certificates retired | (175,410) | - | - | (175,410) |
| Balance at June 30, 2011 | $ 3,953,725 | $ 115,496,817 | $ (77,874) | $ 119,372,668 |
| | | | | |
| Balance at December 31, 2011 | $ 4,010,440 | $ 117,483,811 | $ (120,934) | $ 121,373,317 |
| Net income | - | 7,404,130 | - | 7,404,130 |
| Other comprehensive income | - | - | (10,443) | (10,443) |
| Capital stock/participation certificates issued | 252,150 | - | - | 252,150 |
| Capital stock/participation certificates retired | (224,340) | - | - | (224,340) |
| **Balance at June 30, 2012** | **$ 4,038,250** | **$ 124,887,941** | **$ (131,377)** | **$ 128,794,814** |

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

## ALABAMA AG CREDIT, ACA
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

### NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington and Wilcox in the state of Alabama. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The Farm Credit Bank of Texas (Bank) and its related associations (including the Association) are collectively referred to as the Tenth Farm Credit District (District). The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2011, the District consisted of the Bank, one Federal Land Credit Association (FLCA) and 16 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a Production Credit Association (PCA), operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. 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.

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

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

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

In June and December 2011, the FASB issued guidance entitled "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The main provisions of the guidance provide that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. This guidance did not change the items that must be reported in other comprehensive income. With either approach, an entity is required to disclose reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments.

This guidance is applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact financial condition or results of operations, but resulted in changes to the presentation of comprehensive income.

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

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

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended June 30, 2012, are not necessarily indicative of the results to be expected for the year ended December 31, 2012. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

## NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

| Loan Type | **June 30, 2012 Amount** | December 31, 2011 Amount |
|---|---|---|
| Real estate mortgage | **$ 649,214,040** | $ 653,609,087 |
| Production and intermediate term | **13,344,794** | 5,982,962 |
| Agribusiness: | | |
| Loans to cooperatives | **711,768** | 710,822 |
| Processing and marketing | **8,583,230** | 7,290,370 |
| Farm-related business | **121,899** | 73,924 |
| Rural residential real estate | **9,612,898** | 9,504,180 |
| Total | **$ 681,588,629** | $ 677,171,345 |

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

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|---|---|---|---|---|---|---|
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | $ 6,036,783 | $ 130,139,964 | $ - | $ - | $ 6,036,783 | $ 130,139,964 |
| Agribusiness | 9,308,093 | - | - | - | 9,308,093 | - |
| Total | $ 15,344,876 | $ 130,139,964 | $ - | $ - | $ 15,344,876 | $ 130,139,964 |

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

| | **June 30, 2012** | December 31, 2011 |
|---|---|---|
| **Nonaccrual loans:** | | |
| Real estate mortgage | **$ 17,506,310** | $14,988,438 |
| Production and intermediate term | **16,507** | 16,507 |
| Agribusiness | **13,095** | 13,095 |
| Rural residential real estate | **104,135** | 110,442 |
| Total nonaccrual loans | **17,640,047** | 15,128,482 |
| **Accruing restructured loans:** | | |
| Real estate mortgage | **1,356,311** | 1,383,191 |
| Total accruing restructured loans | **1,356,311** | 1,383,191 |
| **Accruing loans 90 days or more past due:** | | |
| Real estate mortgage | **-** | 166,912 |
| Total accruing loans 90 days or more | **-** | 166,912 |
| Total nonperforming loans | **18,996,358** | 16,678,585 |
| Other property owned | **1,056,337** | 2,236,022 |
| Total nonperforming assets | **$ 20,052,695** | $18,914,607 |

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

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

The following table shows credit quality of the Association's loan volume and related accrued interest by loan type as of:

| | **June 30, 2012** | December 31, 2011 |
|---|---|---|
| Real estate mortgage | | |
| Acceptable | **94.4** % | 94.7 % |
| OAEM | **1.9** | 2.0 |
| Substandard/doubtful | **3.7** | 3.3 |
| | **100.0** | 100.0 |
| Production and intermediate term | | |
| Acceptable | **99.9** | 99.7 |
| OAEM | **-** | - |
| Substandard/doubtful | **0.1** | 0.3 |
| | **100.0** | 100.0 |
| Agribusiness | | |
| Acceptable | **84.6** | 81.4 |
| OAEM | **-** | - |
| Substandard/doubtful | **15.4** | 18.6 |
| | **100.0** | 100.0 |
| Rural residential real estate | | |
| Acceptable | **92.0** | 94.5 |
| OAEM | **1.2** | 1.3 |
| Substandard/doubtful | **6.8** | 4.2 |
| | **100.0** | 100.0 |
| Total loans | | |
| Acceptable | **94.4** | 94.6 |
| OAEM | **1.8** | 2.0 |
| Substandard/doubtful | **3.8** | 3.4 |
| | **100.0** % | 100.0 % |

The following tables provide an age analysis of past due loans (including accrued interest) as of:

| **June 30, 2012** | **30-89 Days Past Due** | **90 Days or More Past Due** | **Total Past Due** | **Not Past Due or Less Than 30 Days Past Due** | **Total Loans** | **Recorded Investment >90 Days and Accruing** |
|---|---|---|---|---|---|---|
| **Real estate mortgage** | **$4,012,704** | **$9,458,026** | **$13,470,730** | **$642,113,951** | **$655,584,681** | **$ -** |
| **Production and intermediate term** | **-** | **16,507** | **16,507** | **13,491,222** | **13,507,729** | **-** |
| **Loans to cooperatives** | **-** | **-** | **-** | **712,108** | **712,108** | **-** |
| **Processing and marketing** | **-** | **-** | **-** | **8,594,428** | **8,594,428** | **-** |
| **Farm-related business** | **-** | **-** | **-** | **122,253** | **122,253** | **-** |
| **Rural residential real estate** | **355,429** | **-** | **355,429** | **9,304,575** | **9,660,004** | **-** |
| **Total** | **$4,368,133** | **$9,474,533** | **$13,842,666** | **$674,338,537** | **$688,181,203** | **$ -** |

| 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 | Recorded Investment >90 Days and Accruing |
|---|---|---|---|---|---|---|
| Real estate mortgage | $4,708,716 | $3,969,318 | $ 8,678,034 | $651,240,357 | $659,918,391 | $ 166,912 |
| Production and intermediate term | - | 16,507 | 16,507 | 6,100,943 | 6,117,450 | - |
| Loans to cooperatives | - | - | - | 711,162 | 711,162 | - |
| Processing and marketing | - | - | - | 7,323,557 | 7,323,557 | - |
| Farm-related business | - | - | - | 74,299 | 74,299 | - |
| Rural residential real estate | 91,669 | - | 91,669 | 9,459,715 | 9,551,384 | - |
| Total | $4,800,385 | $3,985,825 | $ 8,786,210 | $674,910,033 | $683,696,243 | $ 166,912 |

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs and may also reflect a previous direct write-down of the investment.

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

As of June 30, 2012, the total recorded investment of TDR loans was $2,076,968, including $720,658 classified as nonaccrual and $1,356,310 classified as accrual, with specific allowance for loan losses of $39,079. All loans classified as TDRs were individually evaluated to determine the need for allowance for loan losses. As of June 30, 2012, there are no commitments to lend funds to borrowers whose loan terms have been modified in a TDR.

During the quarter and six months ended June 30, 2012, there were no additional loans which were modified in a TDR.

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

The predominant form of concession granted for TDRs includes principal reductions and delayed payments. Other types of modifications include extension of the term, accrued interest reductions and interest rate decreases among others. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a TDR.

The following table presents information regarding loans that met the accounting criteria as a TDR and that occurred from July 1, 2011, through June 30, 2012, and for which there was a payment default during that same period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

| Troubled debt restructurings that subsequently defaulted: | Recorded Investment |
|---|---|
| Real estate mortgage | $ 119,779 |
| Total | $ 119,779 |

Additional impaired loan information is as follows:

| | At June 30, 2012 | | | At December 31, 2011 | | |
|---|---|---|---|---|---|---|
| | **Recorded Investment** | **Unpaid Principal Balance[a]** | **Related Allowance** | Recorded Investment | Unpaid Principal Balance[a] | Related Allowance |
| Impaired loans with a related allowance for credit losses: | | | | | | |
| Real estate mortgage | **$ 7,869,312** | **$10,259,901** | **$1,660,742** | $ 6,636,287 | $ 8,411,528 | $ 1,551,896 |
| Farm-related business | **13,095** | **13,095** | **13,095** | 13,095 | 13,095 | 13,095 |
| Total | **$ 7,882,407** | **$10,272,996** | **$1,673,837** | $ 6,649,382 | $ 8,424,623 | $ 1,564,991 |
| Impaired loans with no related allowance for credit losses: | | | | | | |
| Real estate mortgage | **$10,993,309** | **$11,230,864** | **$ -** | $ 9,902,254 | $ 10,132,232 | $ - |
| Production and intermediate term | **16,507** | **16,507** | **-** | 16,507 | 16,507 | - |
| Rural residential real estate | **104,135** | **104,135** | **-** | 110,442 | 110,442 | - |
| Total | **$11,113,951** | **$11,351,506** | **$ -** | $ 10,029,203 | $ 10,259,181 | $ - |
| Total impaired loans: | | | | | | |
| Real estate mortgage | **$18,862,621** | **$21,490,765** | **$1,660,742** | $ 16,538,541 | $ 18,543,760 | $ 1,551,896 |
| Production and intermediate term | **16,507** | **16,507** | **-** | 16,507 | 16,507 | - |
| Farm-related business | **13,095** | **13,095** | **13,095** | 13,095 | 13,095 | 13,095 |
| Rural residential real estate | **104,135** | **104,135** | **-** | 110,442 | 110,442 | - |
| | **$18,996,358** | **$21,624,502** | **$1,673,837** | $ 16,678,585 | $ 18,683,804 | $ 1,564,991 |

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

| | **For the Three Months Ended** | | | |
|---|---|---|---|---|
| | **June 30, 2012** | | June 30, 2011 | |
| | **Average Impaired Loans** | **Interest Income Recognized** | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for credit losses: | | | | |
| Real estate mortgage | **$ 7,137,294** | **$ 18,878** | $ 7,425,030 | $ - |
| Farm-related business | **13,095** | **-** | - | - |
| Rural residential real estate | **-** | **-** | 29,976 | 455 |
| Total | **$ 7,150,389** | **$ 18,878** | $ 7,455,006 | $ 455 |
| Impaired loans with no related allowance for credit losses: | | | | |
| Real estate mortgage | **$ 10,574,846** | **$ 23,755** | $ 10,472,441 | $ 30,030 |
| Production and intermediate term | **16,507** | **-** | 16,507 | - |
| Farm-related business | **-** | **-** | 13,788 | - |
| Rural residential real estate | **105,369** | **-** | 132,375 | 77 |
| Total | **$ 10,696,722** | **$ 23,755** | $ 10,635,111 | $ 30,107 |
| Total impaired loans: | | | | |
| Real estate mortgage | **$ 17,712,140** | **$ 42,633** | $ 17,897,471 | $ 30,030 |
| Production and intermediate term | **16,507** | **-** | 16,507 | - |
| Farm-related business | **13,095** | **-** | 13,788 | - |
| Rural residential real estate | **105,369** | **-** | 162,351 | 532 |
| | **$ 17,847,111** | **$ 42,633** | $ 18,090,117 | $ 30,562 |

| | For the Six Months Ended | | | |
|---|---|---|---|---|
| | **June 30, 2012** | | June 30, 2011 | |
| | **Average Impaired Loans** | **Interest Income Recognized** | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for credit losses: | | | | |
| Real estate mortgage | **$ 6,629,781** | **$ 25,298** | $ 4,966,725 | $ 27,768 |
| Farm-related business | **13,095** | **-** | - | - |
| Rural residential real estate | **-** | **-** | 7,535 | 455 |
| Total | **$ 6,642,876** | **$ 25,298** | $ 4,974,260 | $ 28,223 |
| Impaired loans with no related allowance for credit losses: | | | | |
| Real estate mortgage | **$ 10,013,028** | **$ 40,711** | $ 7,394,635 | $ 102,449 |
| Production and intermediate term | **16,507** | **-** | 11,414 | 48 |
| Farm-related business | **-** | **-** | 14,170 | - |
| Rural residential real estate | **107,789** | **-** | 123,827 | 77 |
| Total | **$ 10,137,324** | **$ 40,711** | $ 7,544,046 | $ 102,574 |
| Total impaired loans: | | | | |
| Real estate mortgage | **$ 16,642,809** | **$ 66,009** | $ 12,361,360 | $ 130,217 |
| Production and intermediate term | **16,507** | **-** | 11,414 | 48 |
| Farm-related business | **13,095** | **-** | 14,170 | - |
| Rural residential real estate | **107,789** | **-** | 131,362 | 532 |
| | **$ 16,780,200** | **$ 66,009** | $ 12,518,306 | $ 130,797 |

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

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Rural Residential Real Estate | Total |
|---|---|---|---|---|---|
| **Allowance for Credit Losses:** | | | | | |
| **Balance at March 31, 2012** | **$ 3,806,063** | **$ 4,585** | **$ 571,879** | **$ 27,074** | **$ 4,409,601** |
| **Charge-offs** | **(516,349)** | **-** | **-** | **-** | **(516,349)** |
| **Recoveries** | **19,059** | **-** | **-** | **-** | **19,059** |
| **Provision for loan losses** | **226,300** | **4,926** | **(2,051)** | **3,479** | **232,654** |
| **Balance at June 30, 2012** | **$ 3,535,073** | **$ 9,511** | **$ 569,828** | **$ 30,553** | **$ 4,144,965** |
| | | | | | |
| **Balance at December 31, 2011** | **$ 3,761,142** | **$ 3,929** | **$ 531,252** | **$ 43,137** | **$ 4,339,460** |
| **Charge-offs** | **(690,997)** | **-** | **-** | **-** | **(690,997)** |
| **Recoveries** | **19,059** | **-** | **-** | **-** | **19,059** |
| **Provision for loan losses** | **445,869** | **5,582** | **38,576** | **(12,584)** | **477,443** |
| **Balance at June 30, 2012** | **$ 3,535,073** | **$ 9,511** | **$ 569,828** | **$ 30,553** | **$ 4,144,965** |
| | | | | | |
| **Ending Balance:** | | | | | |
| **Individually evaluated for impairment** | **$ 1,934,637** | **$ -** | **$ 13,095** | **$ 17,780** | **$ 1,965,512** |
| **Collectively evaluated for impairment** | **1,600,436** | **9,511** | **556,733** | **12,773** | **2,179,453** |
| **Balance at June 30, 2012** | **$ 3,535,073** | **$ 9,511** | **$ 569,828** | **$ 30,553** | **$ 4,144,965** |
| | | | | | |
| Balance at March 31, 2011 | $ 2,920,645 | $ 263 | $ 948,432 | $ 41,281 | $ 3,910,621 |
| Charge-offs | (61,859) | - | - | - | (61,859) |
| Recoveries | - | - | - | - | - |
| Provision for loan losses | 171,950 | (3) | 5,097 | (5,312) | 171,732 |
| Balance at June 30, 2011 | $ 3,030,736 | $ 260 | $ 953,529 | $ 35,969 | $ 4,020,494 |
| | | | | | |
| Balance at December 31, 2010 | $ 2,633,042 | $ 214 | $ 950,397 | $ 13,802 | $ 3,597,455 |
| Charge-offs | (308,761) | - | - | (8,332) | (317,093) |
| Recoveries | - | - | - | - | - |
| Provision for loan losses | 706,455 | 46 | 3,132 | 30,499 | 740,132 |
| Balance at June 30, 2011 | $ 3,030,736 | $ 260 | $ 953,529 | $ 35,969 | $ 4,020,494 |
| | | | | | |
| Ending Balance: | | | | | |
| Individually evaluated for impairment | $ 1,312,488 | $ - | $ - | $ 28,509 | $ 1,340,997 |
| Collectively evaluated for impairment | 1,718,248 | 260 | 953,529 | 7,460 | 2,679,497 |
| Ending balance at June 30, 2011 | $ 3,030,736 | $ 260 | $ 953,529 | $ 35,969 | $ 4,020,494 |

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Rural Residential Real Estate | Total |
|---|---|---|---|---|---|
| **Recorded Investments in Loans Outstanding:** | | | | | |
| **Ending Balance at June 30, 2012** | **$ 655,584,681** | **$ 13,507,729** | **$ 9,428,789** | **$ 9,660,004** | **$ 688,181,203** |
| **Individually evaluated for impairment** | **$ 24,358,933** | **$ 16,507** | **$ 1,451,416** | **$ 654,557** | **$ 26,481,413** |
| **Collectively evaluated for impairment** | **$ 631,225,748** | **$ 13,491,222** | **$ 7,977,373** | **$ 9,005,447** | **$ 661,699,790** |
| Ending Balance at December 31, 2011 | $ 659,918,391 | $ 6,117,450 | $ 8,109,018 | $ 9,551,384 | $ 683,696,243 |
| Individually evaluated for impairment | $ 23,031,915 | $ 16,507 | $ 1,504,573 | $ 404,274 | $ 24,957,269 |
| Collectively evaluated for impairment | $ 636,886,476 | $ 6,100,943 | $ 6,604,445 | $ 9,147,110 | $ 658,738,974 |

## NOTE 3 — CAPITAL:

The Association’s board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association’s permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan portfolio; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

In December 2011, the board declared a $5,450,000 cash patronage to be paid to stockholders from the Association’s 2011 earnings. The patronage distribution was completed in March 2012.

## NOTE 4 — CAPITAL MARKETS:

Until the second quarter of 2007, the Association participated in the Capital Markets of the South (CMS), a joint venture created in 2003 for the purpose of expanding the participants’ lending opportunities. The CMS group was comprised of the Association, Alabama Farm Credit, ACA, Mississippi Land Bank, ACA, Southern AgCredit, ACA, and the Louisiana Land Bank, ACA.  During the second quarter of 2007, the CMS members decided to discontinue the joint venture. The Association will continue to service the existing CMS loan portfolio, with revenue and expenses continuing to be shared accordingly as noted below, until such time as all of the loans are fully matured or paid off.

Pursuant to the terms of the alliance, each of the five CMS participating associations generally share equally in the costs of operating the venture. All CMS noninterest expenses are recorded gross on the Association’s books and then reimbursed 80 percent by the other four associations. The total amount of reimbursements is included on the statement of comprehensive income in the line item entitled “CMS expense reimbursements.” The Association’s pro-rata share of income from CMS operations are recorded in the statement of comprehensive income in their respective line items.

## NOTE 5 — INCOME TAXES:

Alabama Ag Credit, ACA and its PCA subsidiary, Alabama Ag Credit, PCA, (Associations) are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations 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 earnings that will not be distributed as qualified patronage refunds. During the six months ended June 30, 2012, the Association did participate in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. The Association has recorded a full valuation allowance against its deferred tax asset as of June 30, 2012, based on management's estimate that it is more likely than not that the deferred tax asset will not be realized. For the six months ended June 30, 2012, the Association had no taxable income.

The FLCA subsidiary, Alabama Ag Credit, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

## NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 to the 2011 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

| **June 30, 2012** | **Fair Value Measurement Using** | | | **Total Fair Value** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | |
| Assets: | | | | |
| Loans* | **$ -** | **$ -** | **$13,946,674** | **$13,946,674** |
| Other property owned | **-** | **-** | **1,122,347** | **1,122,347** |

| December 31, 2011 | Fair Value Measurement Using | | | Total Fair Value |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Loans* | $ - | $ - | $ 11,441,516 | $ 11,441,516 |
| Other property owned | - | - | 2,653,852 | 2,653,852 |

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

### Valuation Techniques

As more fully discussed in Note 14 to the 2011 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2011 Annual Report to Stockholders.

*Loans*

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were 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.

*Other Property Owned*

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

By contrast, however, other property owned, net is reported in the accompanying balance sheet at the lower of the related loan's carrying amount (at acquisition) or the collateral's fair value less estimated costs to sell. As of June 30, 2012, other property owned, net is reported at $1,056,337 in the balance sheet.

## NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the three months ended June 30:

| | Other Benefits | |
|---|---|---|
| | **2012** | 2011 |
| Service cost | **$ 13,138** | $ 13,436 |
| Interest cost | **22,480** | 23,144 |
| Expected return on plan assets | **-** | - |
| Amortization of prior service (credits) costs | **(7,952)** | (9,462) |
| Amortizations of net actuarial (gain) loss | **2,731** | 2,468 |
| Net periodic benefit cost | **$ 30,397** | $ 29,586 |

The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the six months ended June 30:

| | Other Benefits | |
|---|---|---|
| | **2012** | 2011 |
| Service cost | **$ 26,276** | $ 26,872 |
| Interest cost | **44,960** | 46,288 |
| Expected return on plan assets | **-** | - |
| Amortization of prior service (credits) costs | **(15,905)** | (18,924) |
| Amortizations of net actuarial (gain) loss | **5,462** | 4,936 |
| Net periodic benefit cost | **$ 60,793** | $ 59,172 |

The structure of the District's defined benefit pension plan is characterized as multi-employer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2011, that it expected to contribute $36,654 to the District's defined benefit pension plan in 2012. As of June 30, 2012, $19,659 of contributions have been made. The Association's liability for the plan's unfunded accumulated obligation at June 30, 2012 was $1,831,645 and is included in "Other Liabilities" in the balance sheet.

The Association's accumulated other comprehensive income (loss) relates entirely to its non-pension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income (loss) for the six months ended June 30:

| | **2012** | 2011 |
|---|---|---|
| Accumulated other comprehensive income (loss) at January 1 | **$(120,934)** | $ (63,886) |
| Amortization of prior service credit (costs) included in net periodic postretirement benefit cost | **(15,905)** | (18,924) |
| Amortization of actuarial gain (loss) included in net periodic postretirement benefit cost | **5,462** | 4,936 |
| Other comprehensive income (loss), net of tax | **(10,443)** | (13,988) |
| Accumulated other comprehensive income at June 30 | **$ (131,377)** | $ (77,874) |

## NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of management, there are no legal proceedings at this time that are likely to materially affect the Association.

## NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through August 2, 2012, which is the date the financial statements were available to be issued, and determined that there are no subsequent events to report.