ALABAMA AG CREDIT, ACA

2012
Quarterly Report
3rd Quarter

For the Quarter Ended September 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
November 3, 2012

W. Thomas Dozier, III, Chairman, Board of Directors
November 3, 2012

M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
November 3, 2012

J.K. Love, CPA, Chairman, Audit Committee
November 3, 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 nine months ended September 30, 2012. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2011 Annual Report of the Association.

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 $2,980,019 and $10,384,149 for the three and nine months ended September 30, 2012, as compared to net income of $2,468,897 and $8,155,274 for the same periods in 2011 reflecting an increase of 20.7 and 27.3 percent, respectively. Net interest income was $5,317,248 and $15,943,678, respectively, for the three and nine months ended September 30, 2012, compared to $5,014,556 and $14,947,850 for the same periods in 2011. Interest income for the first nine months of 2012 decreased by $243,208 or 1.0 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 nine months of 2012 decreased by $1,239,036, or 11.5 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 third quarter of 2012 was $679,405,959, compared to $669,250,877 in the third quarter of 2011.

Noninterest income for the three and nine months ended September 30, 2012 increased by $41,588 and $757,384, or 12.2 percent and 83.3 percent, respectively, over the same periods of 2011. The increase for the quarter is due to increased loan fees, while the increase for the year is due primarily to the receipt of a refund of excess insurance reserves from the Farm Credit System Insurance Corporation's (FCSIC) Insurance Fund.

Noninterest expenses for the three and nine months ended September 30, 2012 decreased by $248,527 and $294,659, or 10.7 percent and 4.6 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 nine 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 nine months of 2012. Salary and benefit costs increased for the first nine months of 2012 compared to the first nine months of 2011. The primary reason for the increase in these costs is from hiring four 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 $640,194 and $1,117,637 for the quarter and nine months ended September 30, 2012 as compared to $558,509 and $1,298,641 for the same periods in 2011. While the overall number of loans and related loss exposures for the first nine 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 nine months of 2011 on one large participation credit. The Association recognized charge-offs of $140,418 and $831,415 for the three and nine months ended September 30, 2012, and charge-offs of $321,022 and $638,115 for the same periods in 2011. The Association has recorded recoveries of $7,397 and $26,456 for the three and nine months ended September 30, 2012 as compared to no recoveries being recorded for the same periods in 2011. The Association's allowance for loan losses was 0.7 percent and 0.6 percent of total loans outstanding as of September 30, 2012, and 2011, respectively.

The Association's return on average assets for the nine months ended September 30, 2012, was 1.99 percent compared to 1.59 percent for the same period in 2011. The Association's return on average equity for the nine months ended September 30, 2012, was 10.92 percent, compared to 9.22 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 September 30, 2012, stated at recorded investment (principal less funds held), were $678,752,022 compared to $677,171,345 at December 31, 2011, reflecting an increase of 0.2 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:

	September 30, 2012	December 31, 2011
Acceptable	**94.2 %**	94.6 %
Special Mention	**1.8 %**	2.0 %
Substandard	**4.0 %**	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.

	September 30, 2012		December 31, 2011	
	Amount	**%**	Amount	%
Nonaccrual	**$ 18,437,221**	**87.8%**	$ 15,128,482	80.0%
90 days past due and still accruing interest	**-**	**0.0%**	166,912	0.9%
Formally restructured	**1,353,393**	**6.4%**	1,383,191	7.3%
Other property owned, net	**1,208,631**	**5.8%**	2,236,022	11.8%
Total	**$ 20,999,245**	**100.0%**	$ 18,914,607	100.0%

At September 30, 2012 loans that were considered impaired were $19,790,614, compared to $16,678,585 at December 31, 2011. This represents 2.9 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 September 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.

	September 30, 2012	December 31, 2011
Note payable to the Bank	**$ 559,845,155**	$ 565,366,959
Accrued interest on note payable	**971,876**	1,165,118
Total	**$ 560,817,031**	$ 566,532,077

Capital Resources:

The Association's capital position increased by $10,413,100 at September 30, 2012, compared to December 31, 2011. The Association's debt as a ratio to members' equity was 4.29:1 as of September 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 September 30, 2012, was 17.8 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2012, were 17.2 and 17.2 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

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash	$ 11,392	$ 10,555
Loans	678,752,022	677,171,345
Less: allowance for loan losses	4,652,138	4,339,460
Net loans	674,099,884	672,831,885
Accrued interest receivable	7,082,264	6,524,887
Investment in and receivable from the Bank:		
Capital stock	11,215,710	11,215,710
Accrued patronage receivable	353,687	158,585
Other	423,990	1,031,617
Other property owned, net	1,208,631	2,236,022
Premises and equipment	2,574,009	2,608,114
Other assets	413,550	246,911
Total assets	$ 697,383,117	$ 696,864,286
LIABILITIES		
Note payable to the Bank	$ 559,845,155	$ 565,366,959
Accrued interest payable	971,876	1,165,118
Drafts outstanding	1,864,422	343,399
Patronage distributions payable	49	5,450,032
Other liabilities	2,915,198	3,165,461
Total liabilities	565,596,700	575,490,969
MEMBERS' EQUITY		
Capital stock and participation certificates	4,055,055	4,010,440
Unallocated retained earnings	127,867,960	117,483,811
Accumulated other comprehensive income (loss)	(136,598)	(120,934)
Total members' equity	131,786,417	121,373,317
Total liabilities and members' equity	$ 697,383,117	$ 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 September 30,		Nine Months Ended September 30,	
	2012	2011	**2012**	2011
INTEREST INCOME				
Loans	**$ 8,372,376**	$ 8,565,657	**$ 25,462,665**	$ 25,705,873
INTEREST EXPENSE				
Note payable to the Bank	**3,055,128**	3,551,101	**9,518,987**	10,758,023
Net interest income	**5,317,248**	5,014,556	**15,943,678**	14,947,850
PROVISION FOR LOSSES				
Provision for loan losses	**640,194**	558,509	**1,117,637**	1,298,641
Net income after provision for losses	**4,677,054**	4,456,047	**14,826,041**	13,649,209
NONINTEREST INCOME				
Patronage income from the Bank	**200,672**	206,740	**609,325**	623,560
Loan fees	**180,925**	125,083	**398,357**	228,420
Financially related services income	**1,420**	1,480	**2,987**	3,352
Gain on sale of premises and equipment, net	**558**	8,684	**12,930**	23,797
Other noninterest income	**-**	-	**643,373**	30,459
Total noninterest income	**383,575**	**341,987**	**1,666,972**	909,588
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,367,175**	1,299,723	**3,994,510**	3,867,339
Directors' expense	**34,540**	37,031	**206,436**	188,436
Purchased services	**127,843**	100,592	**324,690**	416,701
Travel	**137,166**	129,389	**337,889**	323,552
Occupancy and equipment	**99,930**	107,070	**321,360**	277,573
Communications	**32,323**	26,759	**87,430**	76,856
Advertising	**60,111**	52,965	**179,004**	149,424
Public and member relations	**45,191**	38,189	**151,180**	117,924
Supervisory and exam expense	**57,654**	60,710	**179,075**	178,761
Insurance Fund premiums	**70,958**	82,898	**307,421**	319,983
Other noninterest expense	**46,010**	37,764	**117,988**	117,792
Loss on other property owned, net	**74,097**	424,822	**143,421**	609,554
CMS expense reimbursements	**(72,388)**	(68,775)	**(241,540)**	(240,372)
Total noninterest expenses	**2,080,610**	2,329,137	**6,108,864**	6,403,523
NET INCOME	**2,980,019**	2,468,897	**10,384,149**	8,155,274
Other comprehensive income:				
Change in postretirement benefit plans	**(5,221)**	(6,994)	**(15,664)**	(20,982)
COMPREHENSIVE INCOME	**$ 2,974,798**	$ 2,461,903	**$ 10,368,485**	$ 8,134,292

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	-	8,155,274	-	8,155,274
Other comprehensive income	-	-	(20,982)	(20,982)
Capital stock/participation certificates issued	384,675	-	-	384,675
Capital stock/participation certificates retired	(274,025)	-	-	(274,025)
Balance at September 30, 2011	$ 3,986,085	$ 117,965,714	$ (84,868)	$ 121,866,931
Balance at December 31, 2011	$ 4,010,440	$ 117,483,811	$ (120,934)	$ 121,373,317
Net income	-	10,384,149	-	10,384,149
Other comprehensive income	-	-	(15,664)	(15,664)
Capital stock/participation certificates issued	378,175	-	-	378,175
Capital stock/participation certificates retired	(333,560)	-	-	(333,560)
Balance at September 30, 2012	**$ 4,055,055**	**$ 127,867,960**	**$ (136,598)**	**$ 131,786,417**

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 third 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 operations.

In June and December 2011, the FASB issued guidance entitled "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. 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 September 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	**September 30, 2012 Amount**	December 31, 2011 Amount
Real estate mortgage	**$ 641,354,328**	$ 653,609,087
Production and intermediate term	**14,825,250**	5,982,962
Agribusiness:		
Loans to cooperatives	**3,116,252**	710,822
Processing and marketing	**8,402,926**	7,290,370
Farm-related business	**118,974**	73,924
Communication	**949,746**	-
Rural residential real estate	**9,984,546**	9,504,180
Total	**$ 678,752,022**	$ 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 September 30, 2012:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 4,503,095	$ 55,380,581	$ -	$ -	$ 4,503,095	$ 55,380,581
Agribusiness	11,532,273	-	-	-	11,532,273	-
Communication	949,746	-	-	-	949,746	-
Total	$ 16,985,114	$ 55,380,581	$ -	$ -	$ 16,985,114	$ 55,380,581

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

	September 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	**$ 16,874,480**	$14,988,438
Production and intermediate term	**-**	16,507
Agribusiness	**1,451,156**	13,095
Rural residential real estate	**111,585**	110,442
Total nonaccrual loans	**18,437,221**	15,128,482
Accruing restructured loans:		
Real estate mortgage	**1,353,393**	1,383,191
Total accruing restructured loans	**1,353,393**	1,383,191
Accruing loans 90 days or more past due:		
Real estate mortgage	**-**	166,912
Total accruing loans 90 days or more	**-**	166,912
Total nonperforming loans	**19,790,614**	16,678,585
Other property owned	**1,208,631**	2,236,022
Total nonperforming assets	**$ 20,999,245**	$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:

	September 30, 2012	December 31, 2011
Real estate mortgage		
Acceptable	**94.2** %	94.7 %
OAEM	**1.9**	2.0
Substandard/doubtful	**3.9**	3.3
	100.0	100.0
Production and intermediate term		
Acceptable	**100.0**	99.7
OAEM	**-**	-
Substandard/doubtful	**-**	0.3
	100.0	100.0
Agribusiness		
Acceptable	**87.5**	81.4
OAEM	**-**	-
Substandard/doubtful	**12.5**	18.6
	100.0	100.0
Communication		
Acceptable	**100.0**	-
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	-
Rural residential real estate		
Acceptable	**92.0**	94.5
OAEM	**1.5**	1.3
Substandard/doubtful	**6.5**	4.2
	100.0	100.0
Total loans		
Acceptable	**94.2**	94.6
OAEM	**1.8**	2.0
Substandard/doubtful	**4.0**	3.4
	100.0 %	100.0 %

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

September 30, 2012	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 5,081,425**	**$ 9,126,449**	**$ 14,207,874**	**$ 633,901,446**	**$ 648,109,320**	**$ -**
Production and intermediate term	**-**	**-**	**-**	**15,085,736**	**15,085,736**	**-**
Loans to cooperatives	**-**	**-**	**-**	**3,119,278**	**3,119,278**	**-**
Processing and marketing	**-**	**-**	**-**	**8,408,554**	**8,408,554**	**-**
Farm-related business	**-**	**-**	**-**	**119,317**	**119,317**	**-**
Communication	**-**	**-**	**-**	**949,981**	**949,981**	**-**
Rural residential real estate	**87,982**	**9,857**	**97,839**	**9,944,261**	**10,042,100**	**-**
Total	**$ 5,169,407**	**$ 9,136,306**	**$ 14,305,713**	**$ 671,528,573**	**$ 685,834,286**	**$ -**

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 September 30, 2012, the total recorded investment of TDR loans was $2,056,792, including $703,398 classified as nonaccrual and $1,353,394 classified as accrual, with specific allowance for loan losses of $37,142. All loans classified as TDRs were individually evaluated to determine the need for allowance for loan losses. As of September 30, 2012, there are no commitments to lend funds to borrowers whose loan terms have been modified in a TDR.

During the quarter and nine months ended September 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.

Additional impaired loan information is as follows:

	At September 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	$ 7,499,752	$ 9,846,883	$ 1,630,538	$ 6,636,287	$ 8,411,528	$ 1,551,896
Processing and marketing	760,722	760,722	431,418	-	-	-
Farm-related business	13,095	13,095	13,095	13,095	13,095	13,095
Rural residential real estate	9,857	16,072	3,200	-	-	-
Total	$ 8,283,426	$ 10,636,772	$ 2,078,251	$ 6,649,382	$ 8,424,623	$ 1,564,991
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$ 10,728,120	$ 10,961,843	$ -	$ 9,902,254	$ 10,132,232	$ -
Processing and marketing	677,339	677,339	-	16,507	16,507	-
Rural residential real estate	101,728	101,728	-	110,442	110,442	-
Total	$ 11,507,187	$ 11,740,910	$ -	$ 10,029,203	$ 10,259,181	$ -
Total impaired loans:						
Real estate mortgage	$ 18,227,872	$ 20,808,726	$ 1,630,538	$ 16,538,541	$ 18,543,760	$ 1,551,896
Processing and marketing	1,438,061	1,438,061	431,418	16,507	16,507	-
Farm-related business	13,095	13,095	13,095	13,095	13,095	13,095
Rural residential real estate	111,585	117,800	3,200	110,442	110,442	-
Total	$ 19,790,613	$ 22,377,682	$ 2,078,251	$ 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			
	September 30, 2012		September 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	$ 7,532,417	$ 2,858	$ 6,155,593	$ 10,424
Processing and marketing	101,430	68	-	-
Farm-related business	13,095	-	-	-
Rural residential real estate	6,400	121	-	-
Total	$ 7,653,342	$ 3,047	$ 6,155,593	$ 10,424
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 10,815,699	$ 17,236	$ 10,976,496	$ 34,832
Production and intermediate term	-	-	16,507	-
Processing and marketing	90,312	61	-	-
Farm-related business	-	-	13,344	-
Rural residential real estate	102,724	-	114,703	-
Total	$ 11,008,735	$ 17,297	$ 11,121,050	$ 34,832
Total impaired loans:				
Real estate mortgage	$ 18,348,116	$ 20,094	$ 17,132,089	$ 45,256
Production and intermediate term	-	-	16,507	-
Processing and marketing	191,742	129	-	-
Farm-related business	13,095	-	13,344	-
Rural residential real estate	109,124	121	114,703	-
Total	$ 18,662,077	$ 20,344	$ 17,276,643	$ 45,256

	For the Nine Months Ended			
	September 30, 2012		September 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	**$ 6,660,243**	**$ 28,156**	$ 5,425,861	$ 37,600
Processing and marketing	**33,810**	**68**	-	-
Farm-related business	**13,095**	**-**	-	-
Rural residential real estate	**716**	**121**	-	-
Total	**$ 6,707,864**	**$ 28,345**	$ 5,425,861	$ 37,600
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 10,145,436**	**$ 57,947**	$ 9,467,198	$ 117,574
Production and intermediate term	**11,004**	**-**	14,264	48
Processing and marketing	**30,104**	**61**	-	-
Farm-related business	**-**	**-**	13,806	-
Rural residential real estate	**107,044**	**-**	117,789	-
Total	**$ 10,293,588**	**$ 58,008**	$ 9,613,057	$ 117,622
Total impaired loans:				
Real estate mortgage	**$ 16,805,679**	**$ 86,103**	$ 14,893,059	$ 155,174
Production and intermediate term	**11,004**	**-**	14,264	48
Processing and marketing	**63,914**	**129**	-	-
Farm-related business	**13,095**	**-**	13,806	-
Rural residential real estate	**107,760**	**121**	117,789	-
Total	**$ 17,001,452**	**$ 86,353**	$ 15,038,919	$ 155,221

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

Allowance for Credit Losses:	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Rural Residential Real Estate	Total
Balance at June 30, 2012	**$ 3,535,073**	**$ 9,511**	**$ 569,828**	**$ -**	**$ 30,553**	**$ 4,144,965**
Charge-offs	**(134,203)**	**-**	**-**	**-**	**(6,215)**	**(140,418)**
Recoveries	**7,397**	**-**	**-**	**-**	**-**	**7,397**
Provision for loan losses	**381,296**	**647**	**247,109**	**-**	**11,142**	**640,194**
Balance at September 30, 2012	**$ 3,789,563**	**$ 10,158**	**$ 816,937**	**$ -**	**$ 35,480**	**$ 4,652,138**
Balance at December 31, 2011	**$ 3,761,142**	**$ 3,929**	**$ 531,252**	**$ -**	**$ 43,137**	**$ 4,339,460**
Charge-offs	**(825,200)**	**-**	**-**	**-**	**(6,215)**	**(831,415)**
Recoveries	**26,456**	**-**	**-**	**-**	**-**	**26,456**
Provision for loan losses	**827,165**	**6,229**	**285,685**	**-**	**(1,442)**	**1,117,637**
Balance at September 30, 2012	**$ 3,789,563**	**$ 10,158**	**$ 816,937**	**$ -**	**$ 35,480**	**$ 4,652,138**
Ending Balance:						
Individually evaluated for impairment	**$ 2,127,554**	**$ -**	**$ 444,513**	**$ -**	**$ 22,791**	**$ 2,594,858**
Collectively evaluated for impairment	**1,662,009**	**10,158**	**372,424**	**-**	**12,689**	**2,057,280**
Balance at September 30, 2012	**$ 3,789,563**	**$ 10,158**	**$ 816,937**	**$ -**	**$ 35,480**	**$ 4,652,138**
Balance at June 30, 2011	$ 3,030,736	$ 260	$ 953,529	$ -	$ 35,969	$ 4,020,494
Charge-offs	(318,033)	-	-	-	(2,989)	(321,022)
Recoveries	-	-	-	-	-	-
Provision for loan losses	524,658	1,412	27,847	-	4,592	558,509
Balance at September 30, 2011	$ 3,237,361	$ 1,672	$ 981,376	$ -	$ 37,572	$ 4,257,981
Balance at December 31, 2010	$ 2,633,042	$ 214	$ 950,397	$ -	$ 13,802	$ 3,597,455
Charge-offs	(626,794)	-	-	-	(11,321)	(638,115)
Recoveries	-	-	-	-	-	-
Provision for loan losses	1,231,113	1,458	30,979	-	35,091	1,298,641
Balance at September 30, 2011	$ 3,237,361	$ 1,672	$ 981,376	$ -	$ 37,572	$ 4,257,981
Ending Balance:						
Individually evaluated for impairment	$ 1,479,429	$ -	$ 13,251	$ -	$ 27,099	$ 1,519,779
Collectively evaluated for impairment	1,757,932	1,672	968,125	-	10,473	2,738,202
Balance at September 30, 2011	$ 3,237,361	$ 1,672	$ 981,376	$ -	$ 37,572	$ 4,257,981

Recorded Investments in Loans Outstanding:	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Rural Residential Real Estate	Total
Ending Balance at September 30, 2012	**$648,109,320**	**$ 15,085,736**	**$ 11,647,149**	**$ 949,981**	**$ 10,042,100**	**$685,834,286**
Individually evaluated for impairment	**$ 24,978,416**	**$ -**	**$ 1,451,156**	**$ -**	**$ 656,585**	**$ 27,086,157**
Collectively evaluated for impairment	**$623,130,904**	**$ 15,085,736**	**$ 10,195,993**	**$ 949,981**	**$ 9,385,515**	**$658,748,129**
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 nine months ended September 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 September 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 nine months ended September 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:

September 30, 2012	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$15,608,867**	**$15,608,867**
Other property owned	**-**	**-**	**1,307,134**	**1,307,134**

December 31, 2011	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
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 September 30, 2012, other property owned, net is reported at $1,208,631 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 September 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 nine months ended September 30:

	Other Benefits	
	2012	2011
Service cost	**$ 39,414**	$ 40,308
Interest cost	**67,440**	69,432
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(23,857)**	(28,386)
Amortizations of net actuarial (gain) loss	**8,193**	7,404
Net periodic benefit cost	**$ 91,190**	$ 88,758

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 September 30, 2012, $29,530 of contributions have been made. The Association's liability for the plan's unfunded accumulated obligation at September 30, 2012 was $1,857,393 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 nine months ended September 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	**(23,857)**	(28,386)
Amortization of actuarial gain (loss) included in net periodic postretirement benefit cost	**8,193**	7,404
Other comprehensive income (loss), net of tax	**(15,664)**	(20,982)
Accumulated other comprehensive income at September 30	**$ (136,598)**	$ (84,868)

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 November 3, 2012, which is the date the financial statements were available to be issued, and determined that there are no subsequent events to report.