FARM CREDIT SYSTEM INSURANCE CORPORATION
McLean, Virginia

FINANCIAL STATEMENTS
December 31, 2011 and 2010

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Independent Auditor's Report

To the Board of Directors
Farm Credit System Insurance Corporation
McLean, Virginia

We have audited the accompanying statements of financial condition of the Farm Credit System Insurance Corporation (the Corporation) as of December 31, 2011 and 2010, and related statements of income and expenses and changes in insurance fund, and statements of cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2011 and 2010, and the results of its operations and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2012, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of income and expenses by year is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

Calverton, Maryland
April 24, 2012

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Farm Credit System Insurance Corporation
McLean, Virginia

We have audited the financial statements of the Farm Credit System Insurance Corporation (the Corporation) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The management of the Corporation is responsible for maintaining effective internal control over financial reporting and for compliance with laws and regulations.

Internal Control Over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Corporation's Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Calverton, Maryland
April 24, 2012

FINANCIAL STATEMENTS

Farm Credit System Insurance Corporation
Statements of Financial Condition
As of December 31, 2011 and 2010
(Dollars in thousands)

	2011	2010
Assets		
Cash and cash equivalents	$ 1,101	$ 149,831
Investments in U.S. Treasury Obligations (Note 3)	3,266,285	2,974,341
Accrued interest receivable	26,264	21,544
Premiums receivable (Note 4)	98,699	79,969
Total assets	**$ 3,392,349**	**$ 3,225,685**
Liabilities and Insurance Fund		
Accounts payable and accrued expenses (Note 6)	$ 385	$ 339
Total liabilities	385	339
Farm Credit Insurance Fund		
Allocated Insurance Reserves Accounts Allocated in 2011	221,851	0
Unallocated Insurance Fund Balance	3,170,113	3,225,346
Total Insurance Fund	3,391,964	3,225,346
Total liabilities and Insurance Fund	**$ 3,392,349**	**$ 3,225,685**

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

Farm Credit System Insurance Corporation
Statements of Income and Expenses and Changes in Insurance Fund
For the years ended December 31, 2011 and 2010
(Dollars in thousands)

		2011		2010
Income				
Premiums (Note 4)	$	97,257	$	79,648
Interest income		72,616		66,438
Gain or (Loss) on the disposition of investments		0		14
Total income	**$**	**169,873**	**$**	**146,100**
Expenses				
Administrative operating expenses (Note 6)	$	3,255	$	3,130
Total Expenses	**$**	**3,255**	**$**	**3,130**
Net Income	**$**	**166,618**	**$**	**142,970**
Farm Credit Insurance Fund – beginning of year	**$**	**3,225,346**	**$**	**3,287,696**
Payments to AIRAs Accountholders	**$**	**0**	**$**	**(205,320)**
Farm Credit Insurance Fund – end of year	**$**	**3,391,964**	**$**	**3,225,346**

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

Farm Credit System Insurance Corporation
Statements of Cash Flows
For the years ended December 31, 2011 and 2010
(Dollars in thousands)

	2011	2010
Cash flows from operating activities		
Net income	$ 166,618	$ 142,970
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase (decrease) in Capital – Payment to AIRAs Accountholders	0	(205,320)
(Increase) decrease in premium receivable	(18,730)	239,317
(Increase) decrease in accrued interest receivable	(4,720)	1,969
Net amortization and accretion of investments	26,681	26,635
Increase (decrease) in accounts payable and accrued expenses	46	(567)
Net cash provided by operating activities	**169,895**	**205,004**
Cash flows from investing activities		
Payments for purchase of U. S. Treasury Obligations	$ (1,291,379)	$ (403,991)
Proceeds from maturity of U.S. Treasury Obligations	972,754	314,512
Proceeds from sale of U.S. Treasury Obligations	0	21,773
Net cash used in investing activities	**(318,625)**	**(67,706)**
Net change in cash and cash equivalents	(148,730)	137,298
Cash and cash equivalents, beginning of year	149,831	12,533
Cash and cash equivalents, end of year	**$ 1,101**	**$ 149,831**

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

Notes to the Financial Statements

Note 1 — Insurance Fund: Statutory Framework

The Agricultural Credit Act of 1987 (1987 Act) established the Farm Credit System Insurance Corporation (the Corporation or FCSIC) for the purpose of ensuring the timely payment of principal and interest on notes, bonds, debentures, and other obligations issued under subsection (c) or (d) of section 4.2 of the Farm Credit Act of 1971, as amended (Farm Credit Act), (insured obligations). Each bank in the Farm Credit System (System) participating in insured obligations is an insured System bank. At December 31, 2011, there were five insured System banks and 84 direct lender associations.

The Corporation is managed by a board of directors consisting of the same individuals as the Farm Credit Administration (FCA) Board except that the Chairman of the FCA Board may not serve as the Chairman of the Corporation's Board of Directors.

The Corporation must spend the amounts necessary to:

1. Ensure the timely payment of interest and principal on insured obligations in the event of default by an insured System bank; and

2. Ensure the retirement of eligible borrower stock at par value under section 4.9A of the Farm Credit Act.

The Corporation, in its sole discretion, is authorized to expend amounts to provide financial assistance to certain insured institutions.

The balances outstanding at December 31, 2011, for each of the components of the Corporation's insurance responsibilities were $184.2 billion of insured obligations, and $5 million of eligible borrower stock.

If the Corporation does not have sufficient funds to ensure payment on insured obligations, System banks will be required to make payments under joint and several liability, as required by section 4.4 (a)(2) of the Farm Credit Act.

Under section 5.63 of the Farm Credit Act, the Corporation is exempt from all Federal, state, and local taxes with the exception of real property taxes.

Note 2 — Summary of Significant Accounting Policies

Accounting Principles and Reporting Practices—The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (GAAP) and, as such, the financial statements have been prepared using the accrual basis of accounting. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—Cash and cash equivalents include investments in U.S. Treasury obligations with original maturities of 90 days or less. At December 31, 2011, the Corporation held $1 million in overnight Treasury Certificates maturing on January 3, 2012, with an investment rate of zero percent, and $100,763 in cash.

Investments in U.S. Treasury Obligations—Section 5.62 of the Farm Credit Act requires that funds of the Corporation, not otherwise employed, shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. The Corporation has classified its investments as held to maturity in accordance with FASB ASC 320 (formerly Statement of Financial Accounting Standard No. 115) and carries them at amortized cost. Amortization of premium and accretion of discount on investments has been computed under the interest method since 2002. Fair value of investments is estimated based on quoted market prices for those or similar instruments.

Liability for Estimated Insurance Obligations—The liability for estimated insurance obligations is the present value of estimated probable insurance payments to be made in the future based on the Corporation's analysis of economic conditions of insured System banks.

The insured System banks' primary lending markets are borrowers engaged in farming, ranching, and producing or harvesting of aquatic products, and their cooperatives. Financial weaknesses in these market segments and the effect of general market conditions on the System's borrowers could adversely affect the banks' financial condition and profitability. Insured System banks also face risks from changing interest rate environments and the need to maintain ongoing access to financial markets. Adverse changes in the financial condition and profitability of insured System banks resulting from increased levels of credit, financial, or other risks could occur in the future which would have a material effect on the liability for estimated insurance obligations.

The Corporation actively monitors the creditworthiness and financial position of the insured System banks. Management is not aware of any events or circumstances at this time which would require a liability for estimated insurance obligations to be recorded.

Premiums—Annual premiums are recorded as revenue during the period on which the premiums are based. All premiums are due on or before January 31 of the year subsequent to the year in which they are earned.

Retirement Plan—All permanent Corporation employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The Corporation's contribution during 2011 to the CSRS plan was 8.5 percent of base pay. For those employees covered by FERS, the Corporation's contribution was 10.7 percent of base pay. In addition, for FERS-covered employees, the Corporation automatically contributes 1 percent of base pay to the employee's Thrift Savings Plan account, matches the first 3 percent contributed by the employee, and matches one-half of the next 2 percent contributed by the employee. Retirement plan expenses amounted to $249,895 in 2011 and $240,229 in 2010.

Note 3 — Investments

In addition to the amounts referenced in Note 2, Cash and Cash Equivalents, at December 31, 2011 and 2010, investments in U.S. Treasury obligations which are carried at amortized cost consisted of the following:

($ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2011				
U.S. Treasury Notes	$3,266,285	$56,045	$(581)	$3,321,749
December 31, 2010				
U.S. Treasury Notes	$2,974,341	$63,402	$(7,138)	$3,030,605

The amortized cost and estimated market value of U.S. Treasury obligations at December 31, 2011, by contractual maturity, are shown below.

($ in thousands)	Amortized Cost	Estimated Market Value
Due in one year or less	$1,706,980	$ 1,720,998
Due after one year through five years	1,360,494	1,401,134
Due after five years through ten years	198,811	199,617
	$3,266,285	$3,321,749

Note 4—Premiums, the Secure Base Amount and Excess Insurance Fund Balances

Each System bank which issues insured obligations under subsection (c) or (d) of section 4.2 of the Farm Credit Act is an insured System bank and may be required to pay premiums to the Corporation.

The Food, Conservation, and Energy Act of 2008 amended the Farm Credit Act of 1971 (12 U.S.C. § 2001 et seq.) to generally assess premiums based on each bank's pro rata share of insured debt (rather than on loans), aligning premiums with what FCSIC insures. The changes were implemented beginning July 1, 2008. Now FCSIC may collect from 0 to 20 basis points annually on adjusted insured debt outstanding. The amendments also authorize a risk surcharge of up to 10 basis points on non-accrual loans and on other-than-temporarily impaired investments. The amendments reduce the total insured debt on which premiums are assessed by 90 percent of Federal government-guaranteed loans and investments and 80 percent of state government-guaranteed loans and investments, and deduct similar percentages of such guaranteed loans and investments when calculating the secure base amount (SBA). The amendments clarify that FCSIC may collect premiums more frequently than annually.

In addition, the Farm Credit Act no longer specifies how the Farm Credit System banks pass premiums to associations and other financing institutions, although it will require that the banks do so in an equitable manner. This change allows the banks flexibility in allocating premium costs to associations. The amendments clarify that, in addition to FCSIC's regulatory authority under Title V of the Farm Credit Act, FCSIC has the authority to adopt rules and regulations concerning provisions in Title I of the Farm Credit Act related to banks passing along the cost of insurance premiums. Finally, the amendments change Farm Credit Act provisions regarding certified statements and simplify the formula for payments from the Farm Credit Insurance Fund Allocated Insurance Reserves Accounts (AIRAs) to allow more immediate distribution of excess Insurance Fund balances to insured banks and the Farm Credit System Financial Assistance Corporation (FAC) stockholders.

The Farm Credit Act sets a base amount for the Insurance Fund to achieve. The statutory SBA is equivalent to 2.0 percent of the aggregate outstanding insured obligations of all insured System banks (adjusted downward by a percentage of the guaranteed portions of principal outstanding on government-guaranteed loans in accrual status) or such other percentage as determined by the Corporation, in its sole discretion, to be actuarially sound. When the assets in the Insurance Fund for which no specific use has been designated exceed the SBA, the Corporation is required to reduce the premiums, but it still must ensure that reduced premiums are sufficient to maintain at the SBA the assets in the Insurance Fund for which no specific use has been designated (the unallocated Insurance Fund).

Insurance premium rates are reviewed semiannually. For 2011, the Board of Directors set premium rates at its January 20, 2011, meeting at 6 basis points on average adjusted insured debt and continued the assessment of the 10 basis point premium on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments. The Board of Directors again reviewed premiums at its June 21, 2011 meeting. The Board of Directors voted to maintain the premium accrual rate on average adjusted insured debt at 6 basis points and continued the assessment of the 10 basis point premium on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments for the remainder of 2011. In 2011, outstanding insured obligations decreased by $4.13 billion (-2.2 percent). At December 31, 2011, both of the unallocated Insurance Fund and the total Insurance Fund were 2.14 percent of adjusted insured obligations.

On January 19, 2012, the Board of Directors set premium rates for 2012, decreasing the premium rate on adjusted insured debt outstanding from 6 basis points to 5 basis points. The Board continued the 10 basis point premium on the average principal outstanding for nonaccrual loans and other-than-temporarily impaired investments.

A 1996 amendment to the Farm Credit Act requires the Corporation to establish Allocated Insurance Reserves Accounts (AIRAs) for each System bank and an account for the stockholders of the FAC. If at the end of any calendar year the unallocated Insurance Fund is at the SBA, the Corporation is to segregate any excess balances into these AIRAs. In 2011, the Corporation's Board revised the Policy Statement on the Secure Base Amount and Allocated Insurance Reserves Accounts which provides guidelines for implementing this statutory authority. If at the end of any calendar year, the aggregate of the amounts in the Insurance Fund exceeds the SBA, the Corporation shall allocate to the Allocated Insurance Reserves Accounts the excess amount less the amount that the Corporation, in its sole discretion, determines to be the sum of the estimated operating expenses and estimated insurance obligations of the Corporation for the immediately succeeding calendar year. At year-end 2011, this resulted in the transfer of $221.85 million to the AIRAs. The amount was allocated as follows:

FAC Stockholders	(10%)	$ 22.18 million
Farm Credit System Banks	(90%)	$ 199.67 million

The AIRAs balances are recorded as part of the Insurance Fund until approved for payment by the Corporation's Board. AIRAs balances may be used to absorb any insurance losses and claims. Furthermore, the Board of Directors has discretion to limit or restrict the AIRAs payments. In accordance with the Corporation's policy statement, any AIRAs balances do not count in measuring the Insurance Fund's compliance with the SBA.

Note 5 — Operating Lease

On November 30, 2009, the Corporation executed a six-year lease with the Farm Credit System Building Association for office space. The terms of the lease provide for an annual minimum base rent for office space for the remaining term of $142,249 for 2012 and $146,531 for 2013. The Corporation recorded lease expense (including operating cost assessments) of $138,443 and $134,410 for 2011 and 2010, respectively.

Note 6 — Related Parties

The Corporation purchases services from the FCA under an Interagency Agreement. These include examination and administrative support services. The intention of the parties as stated in the agreement is that specified rates and fees will reimburse the party providing services for all reasonable costs associated with provision of the services. The Corporation had payables due to the FCA of $92,330 at December 31, 2011 and $122,417 at December 31, 2010. The Corporation purchased services for 2011 which totaled $336,387 compared with $326,282 for 2010.

The Corporation provides assistance to the FCA under the same Interagency Agreement, recognizing revenue of zero for 2011 and 2010. At December 31, 2011, and 2010, the Corporation did not have any receivables from the FCA.

Note 7 — Subsequent Events

Management evaluated subsequent events through April 24, 2012, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2011, but prior to April 24, 2012, that provided additional evidence about conditions that existed at December 31, 2011, have been recognized in the financial statements for the year ended December 31, 2011. Events or transactions that provided evidence about conditions that did not exist at December 31, 2011, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2011.

SUPPLEMENTAL INFORMATION

Income and Expenses

Farm Credit System Insurance Corporation By Year
(Dollars in thousands)

	Income		**Expenses**		**Net Income**
Year	Premiums	Investment	Provision for Insurance Obligations	Administrative and Operating Expenses	Changes in Insurance Fund
1989	$ 65,000	$16,041	—	$ 118	$ 80,923
1990	$ 72,000	$25,705	$ 140,000	$ 243	($42,538)
1991	$ 77,463	$31,483	$ 15,555	$ 953	$ 92,438
1992	$ 73,902	$37,198	$ 12,062	$1,200	$ 97,838
1993	$ 74,100	$41,277	$ (39,444)[1]	$1,278	$153,543
1994	$ 76,526	$46,389	$ 8,890	$1,482	$112,543
1995	$ 79,394	$54,688	$ (14,329)[2]	$1,379	$147,032
1996	$ 85,736	$61,471	$ 8,509	$1,469	$137,229
1997	$ 71,242	$71,088	$ 9,105	$1,511	$131,714
1998	$ 19,972	$79,545	$ 9,743	$1,525	$ 88,249
1999	$ 45,496	$81,719	$ 10,424	$1,631	$115,203
2000	$ 1,040	$92,776	$ 11,154	$1,797	$ 80,878
2001	$ 0	$94,112	$ 11,935	$2,127	$ 80,051
2002	$ 26,355	$93,499	$ 13,643	$1,906	$107,545[3]
2003	$105,079	$91,405	$ 13,725	$2,218	$180,561
2004	$ 46,520	$86,567	$ 14,686	$2,263	$116,138
2005	$ 49,393	$81,253	$ 6,228	$2,202	$122,236
2006	$164,417	$87,927	$ 0	$2,131	$250,213
2007	$191,336	$98,352	$ 0	$2,740	$286,948
2008	$242,970	$75,736	$ 0	$2,634	$316,080
2009	$318,802	$57,326	$ 0	$3,055	$373,073
2010	$ 79,648	$66,452	$ 0	$3,130	$142,970
2011	$ 97,257	$ 72,616	$ 0	$ 3,255	$166,618

[1] In 1993, the FAC Trust Fund was initially considered available to pay a portion of the Insurance Corporation's FAC obligation for assistance to the FLB of Jackson.
[2] In 1995, this provision was adjusted to reflect a change in the FAC Trust Fund's investment strategy and the termination of the FLB Jackson receivership making available additional funds to reduce the Insurance Corporation's related FAC obligation.
[3] In 2002, the Corporation changed its method of amortizing investment premiums and discounts from the straight line to the interest method. The cumulative effect on prior years of $3.2 million was included in 2002 net income.