FARM CREDIT SYSTEM INSURANCE CORPORATION
McLean, Virginia

FINANCIAL STATEMENTS
December 31, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Farm Credit System Insurance Corporation
McLean, Virginia

We have audited the accompanying financial statements of Farm Credit System Insurance Corporation, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of income and expenses and changes in insurance fund, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit System Insurance Corporation as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2013 on our consideration of Farm Credit System Insurance Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Farm Credit System Insurance Corporation's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Calverton, Maryland
April 11, 2013

CliftonLarsonAllen LLP
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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, in accordance with the 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 financial statements of Farm Credit System Insurance Corporation, which comprise the statement of financial condition as of December 31, 2012, and the related statements of income and expenses and changes in insurance fund, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2013.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Farm Credit System Insurance Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Farm Credit System Insurance Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Farm Credit System Insurance Corporation's internal control.

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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Farm Credit System Insurance Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Calverton, Maryland
April 11, 2013

FINANCIAL STATEMENTS

Farm Credit System Insurance Corporation
Statements of Financial Condition
As of December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
Assets		
Cash and cash equivalents	$ 5,079	$ 1,101
Investments in U.S. Treasury Obligations (Note 3)	3,196,211	3,266,285
Accrued interest receivable	12,667	26,264
Premiums receivable (Note 4)	84,266	98,699
Total assets	**$ 3,298,223**	**$ 3,392,349**
Liabilities and Insurance Fund		
Accounts payable and accrued expenses (Note 6)	$ 287	$ 385
Total liabilities	287	385
Farm Credit Insurance Fund		
Allocated Insurance Reserves Accounts Allocated in 2012	0	221,851
Unallocated Insurance Fund Balance	3,297,936	3,170,113
Total Insurance Fund	3,297,936	3,391,964
Total liabilities and Insurance Fund	**$ 3,298,223**	**$ 3,392,349**

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, 2012 and 2011
(Dollars in thousands)

	2012	2011
Income		
Premiums (Note 4)	$ 84,298	$ 97,257
Interest income	46,842	72,616
Total income	**131,140**	**169,873**
Expenses		
Administrative operating expenses (Note 6)	3,317	3,255
Total Expenses	**3,317**	**3,255**
Net Income	**127,823**	**166,618**
Farm Credit Insurance Fund – beginning of year	**3,391,964**	**3,225,346**
Payments to AIRAs Accountholders	**221,851**	**0**
Farm Credit Insurance Fund – end of year	**$ 3,297,936**	**$ 3,391,964**

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, 2012 and 2011
(Dollars in thousands)

	2012	2011
Cash flows from operating activities		
Net income	$ 127,823	$ 166,618
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in premium receivable	14,433	(18,730)
(Increase) decrease in accrued interest receivable	13,597	(4,720)
Net amortization and accretion of investments	25,957	26,681
Increase (decrease) in accounts payable and accrued expenses	(98)	46
Net cash provided by operating activities	**181,712**	**169,895**
Cash flows from investing activities		
Payments for purchase of U. S. Treasury Obligations	(1,653,663)	(1,291,379)
Proceeds from maturity of U.S. Treasury Obligations	1,697,780	972,754
Net cash provided by (used in) investing activities	**44,117**	**(318,625)**
Cash flows from financing activities		
Payment to AIRAs Accountholders	(221,851)	0
Net cash used in financing activities	**(221,851)**	**0**
Net change in cash and cash equivalents	3,978	(148,730)
Cash and cash equivalents, beginning of year	1,101	149,831
Cash and cash equivalents, end of year	**$ 5,079**	**$ 1,101**

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, 2012, there were four insured System banks and 82 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, 2012, for each of the components of the Corporation's insurance responsibilities were $197.5 billion of insured obligations, and $2 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.

This information is an integral part of the accompanying financial statements.

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, 2012, the Corporation held $4.9 million in overnight Treasury Certificates maturing on January 2, 2013, with an investment rate of zero percent, and $178,885 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 2012 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 $264,533 in 2012 and $249,895 in 2011.

This information is an integral part of the accompanying financial statements.

Note 3 — Investments

In addition to the amounts referenced in Note 2, Cash and Cash Equivalents, at December 31, 2012 and 2011, 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, 2012				
U.S. Treasury Notes	$ 3,196,211	$ 41,496	$ (433)	$ 3,237,274
December 31, 2011				
U.S. Treasury Notes	$ 3,266,285	$ 56,045	$ (581)	$ 3,321,749

The amortized cost and estimated market value of U.S. Treasury obligations at December 31, 2012, by contractual maturity, are shown below.

($ in thousands)	Amortized Cost	Estimated Market Value
Due in one year or less	$ 625,019	$ 629,800
Due after one year through five years	2,294,540	2,322,353
Due after five years through ten years	276,652	285,121
	$ 3,196,211	$ 3,237,274

This information is an integral part of the accompanying financial statements.

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 certain government-guaranteed loans and investments) 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 2012, the Board of Directors set premium rates at its January 19, 2012, meeting at 5 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 14, 2012 meeting. The Board of Directors voted to maintain the premium accrual rate on average adjusted insured debt at 5 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 2012. In 2012, outstanding insured obligations increased by $13.3 billion (7.2 percent). At December 31, 2012, both of the unallocated Insurance Fund and the total Insurance Fund were 1.93 percent of adjusted insured obligations.

On January 24, 2013, the Board of Directors set premium rates for 2013, increasing the premium rate on adjusted insured debt outstanding from 5 basis points to 10 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 A1RAs. 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.

In April 2012, after completion of the Corporation’s year-end audit, the Board of Directors authorized the payment of the $221.85 million transferred at year-end 2011 to the account holders. Payments were made in May 2012.

At yearend 2012, the Insurance Fund was below the SBA by $119 million. Consequently no funds were available to transfer to the AIRAs.

This information is an integral part of the accompanying financial statements.

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 the office space for the remaining term of $146,531 for 2013 and $150,899 for 2014. The Corporation recorded lease expense (including operating cost assessments) of $145,157 and $138,443 for 2012 and 2011, 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 zero payables due to the FCA at December 31, 2012 and $92,330 at December 31, 2011. The Corporation purchased services for 2012 which totaled $401,176 compared with $336,387 for 2011.

The Corporation provides assistance to the FCA under the same Interagency Agreement, recognizing revenue of zero for 2012 and 2011. At December 31, 2012, and 2011, the Corporation did not have any receivables from the FCA.

Note 7 — Subsequent Events

Management evaluated subsequent events through April 11, 2013, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2012, but prior to April 11, 2013, that provided additional evidence about conditions that existed at December 31, 2012, have been recognized in the financial statements for the year ended December 31, 2012. Events or transactions that provided evidence about conditions that did not exist at December 31, 2012, 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, 2012.