Post Audit
Committee
Draft

AgFirst Farm Credit Bank
& District Associations

Quarterly Report

Third Quarter 2011

THIRD QUARTER 2011

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2011 quarterly report of AgFirst Farm Credit Bank and District Associations, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

M. Wayne Lambertson
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

Charl L. Butler
Chief Financial Officer

November 7, 2011

Report on Internal Control Over Financial Reporting

AgFirst Farm Credit Bank (Bank) and each affiliated District Agricultural Credit Association's (District Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Bank and each District Association's respective Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Bank and each District Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the respective Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Bank and each District Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Bank and each District Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank and each District Association's assets that could have a material effect on its Consolidated Financial Statements.

The Bank and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2011. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank and each District Association concluded that as of September 30, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank and each District Association determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2011.

F. A. Lowrey

F.A. Lowrey
Chief Executive Officer

Charl L. Butler
Chief Financial Officer

November 7, 2011

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, as of and for the three and nine month periods ended September 30, 2011. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Combined Financial Statements, and the 2010 Annual Report of AgFirst Farm Credit Bank and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

Effective January 1, 2011, Farm Credit of North Florida, ACA, and Farm Credit of Southwest Florida, ACA, merged with and into Farm Credit of South Florida, ACA, which then changed its name to Farm Credit of Florida, ACA, reducing the number of Associations in the District from twenty-two to twenty. All twenty District Associations are structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate both long-term and short- and intermediate-term loans.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. However, neither the three months nor the nine months results of operations may be indicative of an entire year due to the seasonal nature of a portion of the District's business.

FORWARD-LOOKING INFORMATION

Certain sections of this quarterly report contain forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from the District's expectations and predictions due to a number of risks and uncertainties, many of which are beyond the District's control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial markets, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- changes in United States government support of the agricultural industry and the Farm Credit System (System) as a government-sponsored enterprise (GSE), as well as investor and rating agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary and fiscal policy, as well as other policies and actions of the Federal government that impact the financial services industry and the debt markets.

FINANCIAL CONDITION

Loan Portfolio

The District's aggregate loan portfolio consists primarily of direct loans made by the Associations to eligible borrowers located within their chartered territories. Diversification of the loan volume by type is illustrated in the following table:

Loan Types *(dollars in thousands)*	**September 30, 2011**		**December 31, 2010**		**September 30, 2010**	
Real Estate Mortgage	$ 9,844,073	43 %	$ 9,986,760	43 %	$ 9,902,117	43 %
Production and Intermediate-Term	8,025,209	35	8,105,060	35	8,188,987	36
Rural Residential Real Estate	2,418,423	11	2,258,480	10	2,177,752	9
Processing and Marketing	1,207,844	6	1,355,811	6	1,396,147	6
Farm-Related Business	352,382	2	342,984	2	323,598	1
Loans to Cooperatives	268,051	1	304,161	1	343,837	1
Energy	306,373	1	342,614	2	345,974	2
Communication	202,862	1	200,578	1	176,870	1
Water and Waste Disposal	28,022	–	28,024	–	28,024	–
Lease Receivables	3,405	–	10,697	–	12,596	–
Loans to OFIs	12,250	–	5,000	–	14,000	–
Other (including Mission Related)	79,578	–	92,724	–	97,252	1
Total	$ 22,748,472	100 %	$ 23,032,893	100 %	$ 23,007,154	100 %

Total loans outstanding were $22.748 billion at September 30, 2011, a decrease of $284.4 million, or 1.23 percent, compared to total loans outstanding at December 31, 2010. The resolution of adversely classified loans has impacted loan volume as loans are charged down to their fair value when transitioned to nonaccrual status, liquidated through voluntary or foreclosure sales, or moved to other property owned. New loan demand remains weak due to the continued relative weakness and uncertainty in the general economy. Future loan demand is very difficult to predict. However, it is expected to remain weak through 2012.

Credit Quality

Credit quality also has been adversely affected by the extended weakened economy. Problem asset levels remained elevated as can be seen in the following table:

	Credit Quality as of:		
Classification	**September 30, 2011**	**December 31, 2010**	**September 30, 2010**
Acceptable	87.79%	86.87%	86.62%
OAEM *	5.75%	6.65%	6.78%
Substandard	6.35%	6.33%	6.45%
Doubtful/loss	0.11%	0.15%	0.15%

* *Other Assets Especially Mentioned*

Certain commodity groups continue to be more adversely affected than others in the current economic cycle. Housing-related industries, such as building products, timber, sawmills, landscape nurseries, and sod operations remain stressed. Also, many customers in the District rely on off-farm income, which has been negatively impacted by the weakness in the general economy. Improvement in these segments is dependent on such general economic factors as employment levels and housing market activity.

Loan portfolio credit quality has been negatively impacted by lower real estate values in certain geographic areas within the Bank's chartered territory, particularly in Florida. Other areas of the District experienced a less severe reduction in real estate values although sales continue to be slow throughout the District.

The beef and swine industries are currently experiencing a cycle of profitable results. Profitability was primarily achieved through reduction of oversupply, which led to higher prices. Higher grain and energy costs have been offset by higher meat prices for both beef and swine producers in 2011.

Many chicken integrators are experiencing losses and cash flow problems in 2011 due to oversupply, which resulted in lower market prices, as well as higher input prices. Margins for dairy farmers have narrowed but not severely enough to impact their capacity to service debt. Margins remain tight for ethanol producers due to increased input costs, especially high corn prices. The future volatility of grain prices remains a primary concern to the meat, dairy, and ethanol sectors.

Other major segments of the District loan portfolio continue to perform well, including sugar, citrus, cotton, and row crops. High commodity prices for grains have been very beneficial to row crop farmers. While adverse weather conditions impacted row crop yields in certain locations of the District, generally these borrowers were protected by crop insurance. Production farm land values and sales have generally held up better than residential and investment real estate.

Although credit quality is generally stabilizing, it will take time to fully resolve some problem assets due to their dependency on a recovery in the housing market and real estate values. The future volatility of grain prices remains a primary concern to many of the District's sectors.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at September 30, 2011, were $786.9 million compared to $795.1 million at December 31, 2010. Nonaccrual loans decreased $8.2 million during the nine month period ended September 30, 2011 primarily due to repayments of $234.6 million, $136.3 million of charge-offs of uncollectible balances, transfers to other property owned of $75.9 million, and reinstatements to accrual status of $21.2 million. Offsetting these decreases were $405.1 million of loan balances transferred to nonaccrual status and advances of $41.6 million. The ten largest nonaccrual borrower relationships accounted for 22.09 percent of the total nonaccrual balance. At September 30, 2011, total nonaccrual loans were primarily in the forestry (27.19 percent of the total), other real estate (10.38 percent), cattle (9.23 percent), nursery/greenhouse (9.10 percent), processing, primarily chicken (7.59 percent), and fruits and vegetables (7.15 percent) segments. The repayment of a number of these nonaccrual loans in the forestry, cattle, and other real estate categories, was dependent on the sale of real estate collateral, the value of which has been negatively impacted by the current economic environment as discussed previously. Nonaccrual loans were 3.46 percent of total loans outstanding at September 30, 2011.

Troubled Debt Restructurings

A troubled debt restructuring occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank and District Associations would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank and District Associations. Troubled debt restructurings totaled $218.8 million at September 30, 2011, compared to $151.9 million at December 31, 2010. At September 30, 2011, troubled debt restructurings were comprised of $63.3 million of accruing restructured loans and $155.5 million of nonaccruing restructured loans. Restructured loans were primarily in the forestry (26.55 percent of the total), swine (14.84 percent), and processing, primarily chicken (13.53 percent) segments.

Other Property Owned

Other property owned (OPO) consists of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $1.1 million during the first nine months of 2011 and totaled $145.3 million at September 30, 2011. For the nine months ended September 30, 2011, transfers to OPO were $77.1 million. Offsetting this increase were disposals of $51.5 million and write-downs of OPO of $26.7 million. Write-downs for the nine months ended September 30, 2011 were comprised of several properties. The largest property write-down of $4.9 million was for a pastures and citrus groves land holding which was also the largest OPO holding at September 30, 2011, at $13.7 million (9.45 percent of the total).

Allowance for Loan Losses

The District maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was $179.8 million at September 30, 2011, as compared with $182.3 million at December 31, 2010. The decrease during the nine months ended September 30, 2011, of $2.5 million was due primarily to loan charge-offs of $144.3 million and $16.1 million for merger accounting adjustments as the allowance of the two merged Associations was transferred into their related loan balances on the merger effective date of January 1, 2011. Offsetting increases were provision expense of $153.4 million and recoveries of $4.5 million. See Note 3, *Loans and Allowance for Loan Losses*, and Note 11, *District Merger Activity*, in the Notes to the Combined Financial Statements for further information. Provision expense was related primarily to the forestry (22.40 percent), ethanol (17.78 percent of the total), processing, primarily chicken (16.78 percent), and cattle (10.55 percent) segments. Charge-offs during the nine month period were related primarily to borrowers in the ethanol (23.21 percent), forestry (22.02 percent), and processing, primarily chicken (13.17 percent) segments. The allowance at September 30, 2011 included specific reserves of $70.0 million (38.91 percent of the total) and $109.8 million (61.09 percent) of general reserves. The total allowance at September 30, 2011 was comprised primarily of reserves for the forestry (23.19 percent of the total), cattle (9.59 percent), nursery/greenhouse (9.10 percent), fruits and vegetables (6.06 percent), other real estate (5.96 percent), processing, primarily chicken (5.92 percent), and poultry (5.76 percent) segments. Declining real estate values impacted charge-offs and reserves in many of these loan segments. See Note 3*, Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding increases to the allowance from provision expense.

Liquidity and Funding Sources

One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. Along with normal cash flows associated with lending operations, AgFirst has two primary sources of liquidity: investments, including its available-for-sale portfolio; and the capacity to issue Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation. The Bank also maintains several lines of credit with commercial banks, as well as securities repurchase agreement facilities.

At September 30, 2011, AgFirst had $27.9 billion in total debt outstanding compared to $28.5 billion at December 31, 2010. Total interest-bearing liabilities decreased primarily due to the decrease in loan volume as discussed in this report which reduced funding requirements.

Other interest-bearing liabilities for AgFirst includes $225.0 million in Mandatorily Redeemable Cumulative Preferred Stock issued on May 17, 2001. This stock is mandatorily redeemable on December 15, 2016. Dividends are paid semi-annually in arrears on June 15th and December 15th. Commencing March 15, 2012, dividends will be paid quarterly in arrears. On or after the dividend payment date in December 2011, the preferred stock is redeemable in whole or in part at the option of AgFirst on any dividend payment date at par value of $1 thousand per share together with accrued and unpaid dividends to the redemption date.

AgFirst maintains a $150.0 million unsecured committed line of credit facility from its primary commercial depository bank. The line of credit is tied to AgFirst's master cash management clearing account. The Bank has securities repurchase agreement facilities with three commercial banks that range in terms from overnight to nine months. Also, AgFirst has overnight Fed Funds lines of credit with two commercial banks.

Cash and cash equivalents, which increased $266.1 million from December 31, 2010 to a total of $1.730 billion at September 30, 2011, consist primarily of cash on deposit and money market securities that are short term in nature (from overnight maturities to maturities that range up to 90 days). Money market securities must carry one of the two highest short-term ratings as designated from a Nationally Recognized Statistical Rating Organization (NRSRO). The increase in cash and cash equivalents was due primarily to efforts to maintain high quality liquidity for near term debt maturities that increased at September 30, 2011 compared to December 31, 2010. In addition, management increased targets for cash and cash equivalent liquidity in the third quarter of 2011 due to U.S. Government debt ceiling debates negatively impacting financial markets.

Investment securities totaled $8.056 billion, or 24.21 percent of total assets at September 30, 2011, compared to $8.260 billion, or 24.62 percent, as of December 31, 2010. Investment securities decreased $203.9 million (2.47 percent), compared to December 31, 2010, as management maintained the investment securities portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

Investment securities classified as being held-to-maturity totaled $1.027 billion at September 30, 2011. These held-to-maturity investments were primarily Rural Housing Mortgage-Backed Securities purchased under a Mission Related Investment pilot program approved by the Farm Credit Administration (FCA) in 2005. Pursuant to FCA conditions of approval related to the Mission Related Investment program, the District has submitted and received approval for a plan to hold a Rural America Bond whose credit quality had deteriorated beyond the program limits.

Investment securities classified as being available-for-sale totaled $7.029 billion at September 30, 2011. Available-for-sale investments at September 30, 2011 included $5.039 billion in Government National Mortgage Association (GNMA) securities backed by the full faith and credit of the U.S. Government, $1.660 billion in Agency mortgage backed securities, $247.5 million in non-agency collateralized mortgage obligations (CMOs), $29.6 million in asset-backed securities, $51.9 million in Mission Related Investments, and $535 thousand in commercial mortgage backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of September 30, 2011, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require a liquidity policy that establishes a minimum "coverage" level of 90 days. "Coverage" is defined as the number of days that maturing debt could be funded through the sale of eligible available-for-sale investments and cash and cash equivalents maintained by the Bank. At September 30, 2011, AgFirst's coverage was 194 days, compared to 208 days at December 31, 2010. At September 30, 2011, the Bank's cash and cash equivalents position provided 23 days coverage (Bank policy minimum is 15 days) and investment securities fully backed by the U.S. government provided an additional 121 days of coverage. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation of 194 days.

The FCA considers non-agency asset-backed or mortgage-backed investment securities ineligible if they fall below the top category (AAA/Aaa) credit rating by the NRSROs. The District must obtain specific approval from FCA to continue to hold an ineligible security. For each of these investment securities in the District's portfolio at September 30, 2011 rated below AAA/Aaa (total fair value of $216.0 million and amortized cost of $265.0 million), the District has developed and submitted plans for approval by the FCA that permit the District to continue to hold the securities. The FCA has approved, with conditions, the District's plans for all but two investments that have recently become ineligible. The District is in the process of submitting the plan to obtain approval from the FCA to hold these two investments. Management is of the opinion that holding these securities will result in a higher return for the District than liquidating them. Based on the District's analysis, no other-than-temporary credit related impairment was recognized in 2011 on these recently ineligible securities.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain District ineligible securities are risk weighted between 50 percent and 200 percent instead of the standard 20 percent. These ineligible securities had a fair value of $102.5 million and amortized cost of $127.0 million at September 30, 2011. Other ineligible securities must be deducted completely from both capital and risk adjusted assets, based on the extent of their below investment grade rating from NRSROs. These securities had a fair value of $53.3 million and amortized cost of $65.9 million at September 30, 2011. The fair value and amortized cost of ineligible non-agency reperformer CMO securities covered by Federal Housing Administration insurance and therefore risk weighted at the standard 20 percent, was $60.1 million and $72.1 million, respectively, at September 30, 2011. See the *Capital Resources* section below for further discussion of the regulatory ratios. In addition, all ineligible investments, except non-agency reperformer CMOs which meet certain conditions, are excluded from liquidity coverage as defined above.

Net unrealized gains related to the available-for-sale securities were $130.2 million at September 30, 2011, compared to total net unrealized gains of $43.3 million at December 31, 2010. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Combined Financial Statements. The net unrealized gains stem from normal market factors, such as the current interest rate environment.

The District performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Additional analysis for each security not rated in the top category by the NRSROs is performed using a cash flow model with key assumptions and performance factors which may include credit default rate, prepayment rate, and loss severity. The objective is to quantify future possible loss of principal or interest due on each identified security. The credit enhancements specific to the individual security are considered as appropriate, and may include monoline credit insurance, subordination, over-collateralization, and excess interest spread. Asset-backed securities covered by insurers are analyzed with insurance and without, to quantify the extent of reliance on their guarantees. Based on the results of all analyses, the District recognized other-than-temporary credit related impairment of $8.7 million on asset-backed securities and non-agency CMOs in its portfolio for the nine months ended September 30, 2011, which was included in Net Other-Than-Temporary Impairment Losses on Investments in the Combined Statements of Income. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis. Payment shortfalls, net of insurance recoveries, on asset-backed securities have totaled only $15.6 million life to date ($5.1 million in 2011), compared to total other-than-temporary credit related impairment charges life to date of $39.5 million ($3.6 million in 2011). Total other-than-temporary credit related impairment charges on non-agency CMOs have totaled $14.6 million life to date ($5.1 million in 2011). There have been no payment shortfalls on non-agency CMOs. See Note 2, *Investment Securities*, in the Notes to the Financial Statements for further information.

The District considers both a price, or "mark," provided by a third party pricing service and a value determined using the results of a modeling process for purposes of determining the fair values of securities in the asset-backed and non-agency CMO portfolios, as well as the resulting unrealized gain/loss impact through AOCI. The District reviews and periodically discusses with the third party pricing service and valuation experts the assumptions used in their pricing models for the asset-backed and non-agency CMO securities impacted by inactive trading or distressed sales. This process ensures that, when relevant observable inputs are not available, the fair value reported for each security reflects the price expected to be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date. The modeling process was factored into the pricing for the asset-backed and non-agency CMO security portfolios.

Impact of U.S. Fiscal Situation and Recent Credit Rating Changes on Funding

The Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America. However, recent concerns regarding the government's borrowing limit and budget imbalances have further highlighted the risks to the System relating to the U.S. fiscal situation. These risks include the implied link between the credit rating of the System and the U.S. Government given the System's status as a GSE.

In August 2011 one of the three major NRSROs downgraded the long-term credit rating of U.S. Government (sovereign) debt one level to AA+ from the highest rating of AAA, while leaving the short-term credit rating unchanged. As a consequence of this downgrade action, the same NRSRO downgraded the long-term credit rating of System debt due to the implied link between the credit rating of the System and the U.S. Government. Other GSEs were also concurrently downgraded by this NRSRO. The short-term credit rating of the System was not changed by this NRSRO. The other two major NRSROs did not change their long-term or short-term credit rating of U.S. Government and System debt. A reduction in the System's credit rating may increase borrowing costs and may limit access to the capital markets, reducing the flexibility to issue debt across the full spectrum of the yield curve. To date, the System has continued to have access to funding at competitive rates and terms necessary to support the lending and business operations of the System. The District anticipates continued access to funding through the issuance of Farm Credit System debt.

Capital Resources

Total District shareholders' equity increased $399.6 million (9.61 percent) from December 31, 2010 to September 30, 2011. This increase is primarily attributed to 2011 unallocated retained earnings from net income of $378.7 million, increases of $86.9 million in net unrealized gains during 2011 on investments available-for-sale and employee benefit plan adjustments of $21.7 million. Offsetting the increases were retained earnings retired of $48.7 million, a dividend payment of $13.7 million on perpetual preferred stock, and a net reduction to equity due to merger accounting adjustments of $23.5 million. The merger accounting adjustments represent the net amount to fair value assets and liabilities of the two merged Associations. See Note 11, *District Merger Activity*, in the Notes to the Combined Financial Statements for further information.

As of September 30, 2011, AgFirst and all of the District Associations exceeded the applicable minimum permanent capital, core surplus, total surplus, and net collateral ratio requirements established by FCA Regulations.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2011 was $114.6 million, compared to $128.8 million at September 30, 2010, a decrease of $14.2 million, or 11.02 percent. Net income for the nine months ended September 30, 2011 was $378.7 million, compared to $430.9 million at September 30, 2010, a decrease of $52.2 million, or 12.11 percent.

Key results of operations comparisons

	Annualized for the nine months ended September 30, 2011	For the year ended December 31, 2010	Annualized for the nine months ended September 30, 2010
Return on average assets	1.54%	1.66%	1.73%
Return on average shareholders' equity	11.56%	13.67%	14.59%
Net interest income as a percentage of average earning assets	3.53%	3.31%	3.26%
Net (charge-offs) recoveries to average loans	(0.816)%	(0.658)%	(0.552)%

Net Interest Income

Net interest income for the three months ended September 30, 2011 was $281.9 million compared to $263.2 million for the same period of 2010, an increase of $18.6 million or 7.08 percent. For the nine months ended September 30, 2011, net interest income was $830.4 million, compared to $775.7 million for the nine months ended September 30, 2010, an increase of $54.7 million, or 7.05 percent. The net interest margin was 3.56 percent and 3.53 percent in the current year three and nine month periods respectively, an improvement of 27 basis points over both comparable periods of 2010. Spreads improved for several reasons, but primarily resulted from called debt being replaced by new debt issued at lower interest rates, decreasing funding costs. Net interest income resulting from the change in balance sheet volume was minimal due to lower loan volume as previously discussed. Prospectively, as assets continue to reprice in the lower interest rate environment, spreads and margins will narrow, which will negatively affect net interest income.

The following table illustrates the changes in net interest income:

	For the three months ended September 30, 2011 vs. September 30, 2010			For the nine months ended September 30, 2011 vs. September 30, 2010		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	$ (607)	$ (5,501)	$ (6,108)	$ (1,604)	$ (16,061)	$ (17,665)
Investments & Cash Equivalents	(1,902)	2,195	293	(5,954)	6,221	267
Total Interest Income	$ (2,509)	$ (3,306)	$ (5,815)	$ (7,558)	$ (9,840)	$ (17,398)
Interest Expense:						
Interest-Bearing Liabilities	$ (2,710)	$ (21,747)	$ (24,457)	$ (8,763)	$ (63,310)	$ (72,073)
Changes in Net Interest Income	$ 201	$ 18,441	$ 18,642	$ 1,205	$ 53,470	$ 54,675

Provision for Loan Losses

The District measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. The provision for loan losses was $64.5 million and $153.4 million for the three and nine month periods ended September 30, 2011, compared to $43.5 million and $100.5 million for the same periods in 2010. Provision for loan loss expense for the three months ended September 30, 2011 consisted of $60.0 million related to reserves for specific credits and $4.5 million related to general reserves. The $153.4 million in provision for loan loss expense for the nine months ended September 30, 2011, consisted of $135.4 million related to reserves for specific credits and $18.0 million related to general reserves. Provision expense for the three months ended September 30, 2011 related primarily to borrowers in the forestry (30.65 percent), processing, primarily chicken (24.72 percent), nursery/greenhouse (10.55 percent), other real estate (8.04 percent), and cattle (5.98 percent) segments. Provision expense for the nine months ended September 30, 2011 related primarily to the forestry (22.40 percent of the total), ethanol (17.78 percent), processing, primarily chicken (16.78 percent), and cattle (10.55 percent) segments.

As mentioned previously, declining real estate values were, in part, the reason for some of the provision expense recognized by the District. See Note 3, *Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2011**	**2010**	**Increase/ (Decrease)**	**2011**	**2010**	**Increase/ (Decrease)**
Loan fees	$ 11,272	$ 13,709	$ (2,437)	$ 31,900	$ 35,363	$ (3,463)
Fees for financially related services	3,408	3,263	145	6,587	7,322	(735)
Gains (losses) from other property owned, net	(10,640)	(2,173)	(8,467)	(27,644)	(6,604)	(21,040)
Gains (losses) on investments, net	–	–	–	2,973	1,406	1,567
Net impairment losses on investments	(569)	–	(569)	(8,679)	(9,985)	1,306
Gains (losses) on sale of rural home loans, net	493	1,030	(537)	1,444	1,982	(538)
Gains from sale of premises and equipment, net	664	162	502	1,230	470	760
Patronage refunds from other Farm Credit institutions	231	10	221	367	535	(168)
Insurance premium refunds	–	–	–	–	34,327	(34,327)
Other noninterest income	1,725	980	745	4,009	3,325	684
Total noninterest income	$ 6,584	$ 16,981	$ (10,397)	$ 12,187	$ 68,141	$ (55,954)

Noninterest income for the three months ended September 30, 2011 decreased $10.4 million (61.23 percent) compared to the corresponding period in 2010. For the nine months ended September 30, 2011, noninterest income decreased $56.0 million (82.12 percent) compared to the corresponding period in 2010. The decreases for the three month and nine month periods were due primarily to increased losses from other property owned and decreased loan fees. The nine month period decrease also resulted from the receipt in 2010 of insurance premium refunds.

The District recorded $34.3 million of insurance premium refunds during the first quarter of 2010 from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. No refunds were received for the period ended September 30, 2011.

Net losses from other property owned for the three and nine months ended September 30, 2011 increased $8.5 million and $21.0 million, respectively. See discussion of 2011 expense in the *Other Property Owned* section above. Net loss amounts from disposals of other property owned during the 2010 periods included recognition of previously deferred gains from ethanol plant sales in accordance with accounting guidance.

The decrease in loan fees of 17.78 percent and 9.79 percent for the three and nine month periods ended September 30, 2011 was due primarily to a $3.1 million prepayment penalty for a significant loan that paid off in September 2010.

There was an increase of $569 thousand and a decrease of $1.3 million in the recognition of credit related other-than-temporary impairment on the Bank's investment securities for the three and nine months ended September 30, 2011 as compared to the same period in 2010. See discussion of 2011 credit related other-than-temporary impairment in the *Liquidity and Funding Sources* section above.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2011**	**2010**	**Increase/ (Decrease)**	**2011**	**2010**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 60,603	$ 58,896	$ 1,707	$ 186,108	$ 179,291	$ 6,817
Occupancy and equipment	8,543	9,122	(579)	25,534	26,745	(1,211)
Insurance Fund premiums	3,526	3,119	407	10,465	9,410	1,055
Other operating expenses	20,538	18,827	1,711	61,337	56,788	4,549
Called debt expense	13,436	15,186	(1,750)	19,295	33,292	(13,997)
Correspondent lending servicing expense	2,124	2,078	46	6,611	6,135	476
Other noninterest expense	–	70	(70)	105	209	(104)
Total noninterest expense	$ 108,770	$ 107,298	$ 1,472	$ 309,455	$ 311,870	$ (2,415)

Noninterest expense for the three months ended September 30, 2011 was $108.8 million, which reflected an increase of $1.5 million (1.37 percent) compared to the corresponding period in 2010. For the nine months ended September 30, 2011, noninterest expense was $309.5 million, which reflected a decrease of $2.4 million (0.77 percent) compared to the corresponding period in 2010. The increase for the three month period and the decrease for the nine month period were due primarily to increases in salaries and employee benefits and other operating expenses offset by a decrease in called debt expense.

The increase in salaries and employee benefits of 2.90 percent and 3.80 percent for the three and nine month periods ended September 30, 2011 was due primarily to normal salary administration and increased employee benefit costs at September 30, 2011 compared to September 30, 2010.

Other operating expenses are comprised of numerous and varied expenses, none of which individually had a significant increase in the three months and nine months ended September 30, 2011 compared to the same periods in 2010.

Concession or debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized concession is expensed. Called debt expense decreased $1.8 million (11.52 percent) for the three month period and $14.0 million (42.04 percent) for the nine month period. Call options were exercised on bonds totaling $9.335 billion and $16.166 billion for the three and nine months ended September 30, 2011 compared to $11.288 billion and $24.067 billion for the same periods of 2010. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

FCSIC premiums increased $407 thousand and $1.1 million for the three and nine month periods due primarily to a change in the premium rate charged. The 2011 base annual premium rate is 6 basis points compared to the 2010 base annual premium rate of 5 basis points.

Occupancy and equipment expense for the three months and nine months ended September 30, 2011 decreased $579 thousand and $1.2 million, respectively. These decreases were due primarily to lower depreciation expense as a result of several capitalized projects which fully depreciated in January 2011.

Correspondent lending service expense increased 2.21 percent for the three month period and 7.76 percent for the nine month period ended September 30, 2011. These increases were related primarily to increased agency guarantee fees resulting from higher volume in the correspondent lending portfolio.

Other noninterest expense consists of amortization of mandatorily redeemable preferred stock issuance costs, which fully amortized in May 2011.

REGULATORY MATTERS

On August 18, 2011, the FCA published for comment an amendment to the regulations governing investments held by institutions of the System. The stated objectives of the proposed rule are to:

- ensure that the Banks hold sufficient high quality, readily marketable investments to provide sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption;
- strengthen the safety and soundness of System institutions;
- seek comments on how the FCA can comply with section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires the FCA to remove all references to and requirements relating to credit ratings and to substitute other appropriate standards of creditworthiness;
- reduce regulatory burden with respect to investments that fail to meet eligibility criteria after purchase or are unsuitable; and
- enhance the ability of the System to supply credit to agriculture and aquatic producers by ensuring adequate availability to funds.

The System is in the process of developing a response to the proposed amendment to the investment regulations. Comments are due by November 16, 2011.

DISTRICT MERGER ACTIVITY

Please refer to Note 11, *District Merger Activity*, in the Notes to the Combined Financial Statements for information regarding merger activity in the District.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Combined Financial Statements, and the 2010 Annual Report of AgFirst Farm Credit Bank and District Associations for recently issued accounting pronouncements.

NOTE: Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, Reporting Manager, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank's website, *www.agfirst.com*. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Combined Balance Sheets

(dollars in thousands)	September 30, 2011	December 31, 2010
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	**$ 1,729,765**	$ 1,463,700
Investment securities:		
Available for sale (amortized cost of $6,898,273 and $6,981,952 respectively)	**7,028,507**	7,025,290
Held to maturity (fair value of $1,115,703 and $1,298,088 respectively)	**1,027,101**	1,234,262
Total investment securities	**8,055,608**	8,259,552
Loans	**22,748,472**	23,032,893
Less: allowance for loan losses	**179,816**	182,329
Net loans	**22,568,656**	22,850,564
Loans held for sale	**13,264**	11,340
Other investments	**234,986**	305,959
Accrued interest receivable	**230,024**	195,966
Investments in other Farm Credit System institutions	**11,623**	11,479
Premises and equipment, net	**125,075**	125,695
Other property owned	**145,339**	146,416
Other assets	**160,980**	179,336
Total assets	**$ 33,275,320**	$ 33,550,007
Liabilities		
Bonds and notes	**$ 27,884,369**	$ 28,525,569
Mandatorily redeemable preferred stock	**225,000**	225,000
Accrued interest and dividend payable	**44,912**	57,943
Dividends and patronage refunds payable	**12,525**	98,694
Pension and other postretirement benefits liability	**352,853**	336,741
Advanced conditional payments	**6,801**	6,842
Other liabilities	**192,621**	142,538
Total liabilities	**28,719,081**	29,393,327
Commitments and contingencies (Note 6)		
Shareholders' Equity		
Perpetual preferred stock	**400,000**	400,000
Protected borrower equity	**3,285**	3,641
Capital stock and participation certificates	**153,516**	150,031
Additional paid in capital (Note 11)	**7,922**	—
Retained earnings		
Allocated	**1,270,363**	1,318,996
Unallocated	**2,901,196**	2,575,592
Accumulated other comprehensive income (loss)	**(180,043)**	(291,580)
Total shareholders' equity	**4,556,239**	4,156,680
Total liabilities and equity	**$ 33,275,320**	$ 33,550,007

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Interest Income				
Investment securities	**$ 51,087**	$ 49,791	**$ 153,699**	$ 150,348
Loans	**299,528**	305,636	**898,038**	915,703
Other	**2,868**	3,871	**8,541**	11,625
Total interest income	**353,483**	359,298	**1,060,278**	1,077,676
Interest Expense	**71,624**	96,081	**229,886**	301,959
Net interest income	**281,859**	263,217	**830,392**	775,717
Provision for loan losses	**64,542**	43,503	**153,434**	100,494
Net interest income after provision for loan losses	**217,317**	219,714	**676,958**	675,223
Noninterest Income				
Loan fees	**11,272**	13,709	**31,900**	35,363
Fees for financially related services	**3,408**	3,263	**6,587**	7,322
Gains (losses) from other property owned, net	**(10,640)**	(2,173)	**(27,644)**	(6,604)
Gains (losses) on investments, net	**—**	—	**2,973**	1,406
Total other-than-temporary impairment losses on investments (Note 2)	**(642)**	—	**(3,521)**	(2,110)
Portion of loss recognized in other comprehensive income (loss) (Note 2)	**73**	—	**(5,158)**	(7,875)
Net other-than-temporary impairment losses on investments	**(569)**	—	**(8,679)**	(9,985)
Gains (losses) on sale of rural home loans, net	**493**	1,030	**1,444**	1,982
Gains from sale of premises and equipment, net	**664**	162	**1,230**	470
Patronage refunds from other Farm Credit institutions	**231**	10	**367**	535
Insurance premium refunds	**—**	—	**—**	34,327
Other noninterest income	**1,725**	980	**4,009**	3,325
Total noninterest income	**6,584**	16,981	**12,187**	68,141
Noninterest Expenses				
Salaries and employee benefits	**60,603**	58,896	**186,108**	179,291
Occupancy and equipment	**8,543**	9,122	**25,534**	26,745
Insurance Fund premiums	**3,526**	3,119	**10,465**	9,410
Other operating expenses	**20,538**	18,827	**61,337**	56,788
Called debt expense	**13,436**	15,186	**19,295**	33,292
Correspondent lending servicing expense	**2,124**	2,078	**6,611**	6,135
Other noninterest expense	**—**	70	**105**	209
Total noninterest expenses	**108,770**	107,298	**309,455**	311,870
Income before income taxes	**115,131**	129,397	**379,690**	431,494
Provision for income taxes	**506**	580	**965**	608
Net income	**$ 114,625**	$ 128,817	**$ 378,725**	$ 430,886

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Additional Paid in Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2009	$ 400,000	$ 4,205	$ 138,504	$ —	$ 1,199,441	$ 2,323,523	$ (438,646)	$ 3,627,027
Comprehensive income								
Net income						430,886		430,886
Unrealized gains (losses) on investments available for sale:								
Other-than-temporarily impaired (Note 2)							19,786	
Not-other-than-temporarily impaired (Note 2)							160,064	
Total unrealized gains (losses) on investments available for sale								179,850
Employee benefit plans adjustments							20,082	20,082
Total comprehensive income								630,818
Protected borrower equity retired		(506)						(506)
Capital stock/participation certificates issued (retired), net			15,845					15,845
Dividends declared/paid			362			(560)		(198)
Perpetual preferred stock dividends paid						(13,706)		(13,706)
Patronage distribution								
Cash						(10,500)		(10,500)
Retained earnings retired					(41,062)			(41,062)
Patronage distribution adjustment					(1,454)	1,813		359
Balance at September 30, 2010	$ 400,000	$ 3,699	$ 154,711	$ —	$ 1,156,925	$ 2,731,456	$ (238,714)	$ 4,208,077
Balance at December 31, 2010	$ 400,000	$ 3,641	$ 150,031	$ —	$ 1,318,996	$ 2,575,592	$ (291,580)	$ 4,156,680
Comprehensive income								
Net income						**378,725**		**378,725**
Unrealized gains (losses) on investments available for sale:								
Other-than-temporarily impaired (Note 2)							**3,645**	
Not other-than-temporarily impaired (Note 2)							**83,252**	
Total unrealized gains (losses) on investments available for sale								**86,897**
Change in value of firm commitments - when issued securities (Note 8)							**2,910**	**2,910**
Employee benefit plans adjustments							**21,730**	**21,730**
Total comprehensive income								**490,262**
Protected borrower equity retired		**(356)**						**(356)**
Capital stock/participation certificates issued (retired), net			**2,919**					**2,919**
Dividends declared/paid			**573**			**(573)**		**—**
Perpetual preferred stock dividends paid						**(13,706)**		**(13,706)**
Patronage distribution								
Cash						**(9,010)**		**(9,010)**
Nonqualified allocated retained earnings					**14**	**(14)**		**—**
Retained earnings retired					**(48,737)**			**(48,737)**
Equity issued as result of merger (Note 11)		**267**	**1,936**	**7,922**				**10,125**
Equity retired as result of merger (Note 11)		**(267)**	**(1,936)**			**(31,458)**		**(33,661)**
Patronage distribution adjustment			**(7)**		**90**	**1,640**		**1,723**
Balance at September 30, 2011	**$ 400,000**	**$ 3,285**	**$ 153,516**	**$ 7,922**	**$ 1,270,363**	**$ 2,901,196**	**$ (180,043)**	**$ 4,556,239**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2011	2010
Cash flows from operating activities:		
Net income	**$ 378,725**	$ 430,886
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**12,351**	13,591
Amortization of net deferred loan origination (fees) costs	**(7,857)**	(7,714)
Premium amortization (discount accretion) on investment securities	**7,478**	17,864
(Premium amortization) discount accretion on bonds and notes	**(591)**	(5,480)
Provision for loan losses	**153,434**	100,494
(Gains) losses on other property owned	**27,644**	6,604
(Gains) losses from sale of premises and equipment, net	**(1,230)**	(470)
Net impairment losses on investments	**8,679**	9,985
(Gains) losses on investments, net	**(2,973)**	(1,406)
Gains (losses) on sales of rural home loans, net	**(1,444)**	(1,982)
Net change in loans held for sale	**17,528**	(28,422)
(Increase) decrease in accrued interest receivable	**(34,058)**	(26,839)
(Increase) decrease in other assets	**12,423**	(14,045)
Increase (decrease) in accrued interest payable	**(13,031)**	(31,097)
Increase (decrease) in pension and other postretirement benefits liability	**15,992**	14,574
Increase (decrease) in other liabilities	**63,134**	(23,184)
Total adjustments	**257,479**	22,473
Net cash provided by (used in) operating activities	**636,204**	453,359
Cash flows from investing activities:		
Investment securities purchased	**(922,464)**	(1,572,977)
Proceeds from investment securities sold or matured	**1,202,624**	1,801,880
Net (increase) decrease in loans	**28,294**	20,840
(Increase) decrease in investments in other Farm Credit System institutions	**(144)**	11,637
Purchases of other investments	**(2,599)**	(4,050)
Proceeds from payments received on other investments	**82,542**	81,346
Purchase of premises and equipment, net	**(12,415)**	(9,207)
Proceeds from sale of premises and equipment, net	**1,914**	661
Proceeds from sale of other property owned	**44,853**	37,646
Net cash provided by (used in) investing activities	**422,605**	367,776
Cash flows from financing activities:		
Bonds and notes issued	**30,693,259**	47,053,340
Bonds and notes retired	**(31,332,626)**	(48,156,430)
Net increase (decrease) in advanced conditional payments	**(41)**	1,105
Protected borrower equity retired	**(356)**	(506)
Capital stock and participation certificates issued/retired, net	**2,919**	15,845
Patronage refunds and dividends paid	**(93,456)**	(76,142)
Dividends paid on perpetual preferred stock	**(13,706)**	(13,706)
Retained earnings retired	**(48,737)**	(41,062)
Net cash provided by (used in) financing activities	**(792,744)**	(1,217,556)
Net increase (decrease) in cash and cash equivalents	**266,065**	(396,421)
Cash and cash equivalents, beginning of period	**1,463,700**	981,041
Cash and cash equivalents, end of period	**$ 1,729,765**	$ 584,620
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	**$ 5,715**	$ 4,065
Loans transferred to other property owned	**77,135**	118,318
Change in unrealized gains (losses) on investments, net	**86,897**	179,850
Employee benefit plans adjustments	**21,730**	20,082
Equity issued as result of merger (Note 11)	**10,125**	—
Equity retired as result of merger (Note 11)	**(33,661)**	—
Adjustment of allowance for loan losses related to Association mergers (Note 3)	**(16,097)**	—
Change in fair value of derivative instruments (Note 8)	**(9,116)**	—
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	**$ (5,933)**	$ 10,834
Decrease (increase) in other assets	**5,933**	(10,605)
Increase (decrease) in other liabilities	—	(229)
Supplemental information:		
Interest paid	**$ 243,508**	$ 338,536
Taxes paid, net	**713**	740

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

Notes to the Combined Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 — ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Organization and Significant Accounting Policies

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District. All significant transactions and balances between AgFirst and the District Associations have been eliminated in combination. Effective January 1, 2011, Farm Credit of North Florida, ACA (NFL), and Farm Credit of Southwest Florida, ACA (SWFL), merged with and into Farm Credit of South Florida, ACA (SFL), which then changed its name to Farm Credit of Florida, ACA (FCFL), reducing the number of Associations in the District from twenty-two to twenty. A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the District as of and for the year ended December 31, 2010 are contained in the 2010 Annual Report to Shareholders. These unaudited third quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Shareholders.

The accompanying 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 (GAAP) and prevailing practices within the banking industry. The results for the nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011.

Certain amounts in the prior period's financial statements may have been reclassified to conform to the current period's financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The District maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the District has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss. The District considers factors such as credit risk classifications, collateral values, risk concentrations, weather related conditions, current production and economic conditions, and prior loan loss experience, among others, when determining the allowance for loan losses.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price, or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies to reflect estimated probable credit losses incurred in the remainder of the loan portfolio at the financial statement date. The general allowance excludes loans included under the specific allowance discussed above, unless specific characteristics of the loan indicate that it is probable that there would be an incurred loss in a group of loans with those characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

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

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

Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-09, "Compensation (Topic 715): Retirement Benefits – Multiemployer Plans." The amendment is intended to provide for more information about an employer's financial obligations to multiemployer pension and other postretirement benefit plans, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include the following: (1) a description of the nature of plan benefits; (2) 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 (3) 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, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This amendment is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. This guidance is to be applied retrospectively. For public entities, it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

In April 2011, the FASB issued ASU 2011-02, "Receivables (Topic 310): 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 (TDR). In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities, including the District, for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The guidance should be applied retrospectively to the beginning of the annual period of adoption. The new disclosures about TDR activity required by the guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," as discussed below, are effective for annual reporting periods ending after December 15, 2011. The impact of adoption of this guidance, if any, is expected to be immaterial to the District's financial condition and results of operations, but it will result in additional disclosures.

In January 2011, the FASB issued ASU 2011-01, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This amendment temporarily delayed the effective date of the disclosures about TDRs required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about TDRs coincides with the guidance for determining what constitutes a TDR as described above.

In July 2010, the FASB issued ASU 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This amendment provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period were effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance had no impact on the District's financial condition and results of operations but resulted in significant additional disclosures (see Note 3).

Effective January 1, 2010, the District adopted ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820)" which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the District's financial condition and results of operations but resulted in additional disclosures (see Note 4).

Other recently issued accounting pronouncements are discussed in the 2010 Annual Report to Shareholders.

NOTE 2 — INVESTMENT SECURITIES

Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments follows:

	September 30, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. GNMA MBS/CMOs	$ 4,873,005	$ 169,654	$ (3,763)	$ 5,038,896	2.48%
U.S. Govt. Agency MBS	1,643,207	26,645	(9,809)	1,660,043	1.44
Non-Agency CMOs (a)	301,798	412	(54,676)	247,534	0.58
Commercial MBS	776	–	(241)	535	5.01
Asset-Backed Securities (a)	35,497	1,826	(7,747)	29,576	0.55
Mission Related Investments	43,990	7,933	–	51,923	6.17
Total	$ 6,898,273	$ 206,470	$ (76,236)	$ 7,028,507	2.16%

	December 31, 2010				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. GNMA MBS/CMOs	$ 4,836,617	$ 116,377	$ (5,983)	$ 4,947,011	2.19%
U.S. Govt. Agency MBS	1,743,193	26,768	(22,570)	1,747,391	1.46
Non-Agency CMOs (b)	357,648	59	(62,181)	295,526	0.67
Commercial MBS	1,291	–	(366)	925	6.96
Asset-Backed Securities (b)	43,203	2,355	(11,121)	34,437	0.70
Total	$ 6,981,952	$ 145,559	$ (102,221)	$ 7,025,290	1.92%

(a) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of $13.7 million for Non-Agency CMOs and $5.8 million for Asset-Backed Securities.
(b) Gross unrealized losses include non-credit related other-than temporary impairment recognized in AOCI of $13.9 million for Non-Agency CMOs and $9.1 million for Asset-Backed Securities.

Held-to-maturity

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments follows:

	September 30, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. Agency MBS	$ 750,022	$ 64,040	$ (223)	$ 813,839	5.26%
Asset-Backed Securities	76,318	824	(468)	76,674	1.61
Mission Related Investments	200,761	24,429	–	225,190	6.03
Total	$ 1,027,101	$ 89,293	$ (691)	$ 1,115,703	5.14%

	December 31, 2010				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. Agency MBS	$ 913,648	$ 57,611	$ (248)	$ 971,011	5.35%
Asset-Backed Securities	82,452	664	(541)	82,575	1.52
Mission Related Investments	238,162	7,955	(1,615)	244,502	6.08
Total	$ 1,234,262	$ 66,230	$ (2,404)	$ 1,298,088	5.24%

A summary of the expected maturity, estimated fair value and amortized cost of investment securities at September 30, 2011 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield
U.S. Govt. GNMA MBS/CMOs	$ –	– %	$ –	– %	$ 1,361	1.01 %	$ 5,037,535	2.48 %	$ 5,038,896	2.48 %
U.S. Govt. Agency MBS	–	–	15,594	4.70	30,225	0.72	1,614,224	1.42	1,660,043	1.44
Non-Agency CMOs	–	–	–	–	–	–	247,534	0.58	247,534	0.58
Commercial MBS	–	–	–	–	–	–	535	5.01	535	5.01
Asset-Backed Securities	–	–	–	–	–	–	29,576	0.55	29,576	0.55
Mission Related Investments	–	–	2,037	6.17	1,084	6.17	48,802	6.17	51,923	6.17
Total fair value	$ –	– %	$ 17,631	4.89 %	$ 32,670	0.89 %	$ 6,978,206	2.16 %	$ 7,028,507	2.16 %
Total amortized cost	$ –		$ 16,330		$ 32,434		$ 6,849,509		$ 6,898,273	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield
U.S. Govt. Agency MBS	$ –	– %	$ –	– %	$ 1,520	4.96 %	$ 748,502	5.26 %	$ 750,022	5.26 %
Asset-Backed Securities	1,407	1.97	9,468	1.19	43,960	1.59	21,483	1.79	76,318	1.61
Mission Related Investments	–	–	24,403	6.63	30,921	6.02	145,437	5.89	200,761	6.03
Total amortized cost	$ 1,407	1.97 %	$ 33,871	5.11 %	$ 76,401	3.53 %	$ 915,422	5.28 %	$ 1,027,101	5.14 %
Total fair value	$ 1,408		$ 34,896		$ 80,937		$ 998,462		$ 1,115,703	

The District's investments consist primarily of mortgage-backed securities (MBSs) collateralized by U.S. Government or U.S. Agency guaranteed residential mortgages and all were rated AAA/Aaa at September 30, 2011. These securities are classified as available-for-sale and are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk.

During the first nine months of 2011, proceeds from sales of investment securities were $57.3 million and realized gains were $3.0 million. During the first nine months of 2010, proceeds from sales of investment securities were $100.4 million and net realized gains were $1.4 million.

Included in available-for-sale investments are non-agency collateralized mortgage obligations (CMOs) and asset-backed securities (ABSs). Substantially all of these securities have contractual maturities in excess of ten years. However, expected maturities will generally differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties. These securities must meet applicable Farm Credit Administration (FCA) regulatory guidelines, which require that they be high quality, senior class, and rated in the top category (AAA/Aaa) by at least one Nationally Recognized Statistical Rating Organization (NRSRO) at the time of purchase. To achieve that rating, they may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, and/or a priority of payments over junior classes. All of the District's investments in these securities have credit enhancement features including, but not limited to, senior/subordinate structure and/or loss coverage by a bond insurer.

The FCA considers non-agency CMOs or ABSs ineligible if they fall below the AAA/Aaa credit rating criteria by the NRSROs. The District must obtain specific approval from FCA to continue to hold an ineligible security. Non-agency CMO securities not rated in the top category by at least one of the NRSROs at September 30, 2011 had a fair value of $195.6 million. ABSs not rated in the top category by at least one of the NRSROs at September 30, 2011 had a fair value of $20.3 million. For each of these securities rated below AAA/Aaa, the District has developed and submitted plans to the FCA which provide that the securities be held to maturity. The FCA has approved, with conditions, the District's plans for all but two investments that have recently become ineligible. The District is in the process of submitting a plan to hold these two investments to FCA for approval.

Held-to-maturity Mission Related Investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Program approved by the FCA. In its Conditions of Approval under the Mission Related Investment program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the 14-point risk rating scale used to also grade loans, falls below 9. Pursuant to FCA conditions of approval related to the Mission Related Investment program, the District has also submitted and received approval for a plan to hold a Rural America Bond whose credit quality had deteriorated beyond the program limits.

An investment is considered impaired if its fair value is less than its cost. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following table shows the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at September 30, 2011 and December 31, 2010. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	September 30, 2011					
	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. GNMA MBS/CMOs	$ 44,171	$ (124)	$ 289,143	$ (3,639)	$ 333,314	$ (3,763)
U.S. Govt. Agency MBS	20,432	(99)	571,394	(9,933)	591,826	(10,032)
Non-Agency CMOs	–	–	246,495	(54,676)	246,495	(54,676)
Asset-Backed Securities	4,879	(39)	45,434	(8,176)	50,313	(8,215)
Mortgage-Backed Securities	–	–	535	(241)	535	(241)
Mission Related Investments	–	–	–	–	–	–
Total	$ 69,482	$ (262)	$ 1,153,001	$ (76,665)	$ 1,222,483	$ (76,927)

	December 31, 2010					
	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. GNMA MBS/CMOs	$ 602,933	$ (2,529)	$ 325,506	$ (3,454)	$ 928,439	$ (5,983)
U.S. Govt. Agency MBS	219,661	(1,492)	627,100	(21,326)	846,761	(22,818)
Non-Agency CMOs	–	–	292,015	(62,181)	292,015	(62,181)
Asset-Backed Securities	4,157	(18)	55,229	(11,644)	59,386	(11,662)
Mortgage-Backed Securities	–	–	926	(366)	926	(366)
Mission Related Investments	55,694	(1,389)	4,784	(226)	60,478	(1,615)
Total	$ 882,445	$ (5,428)	$ 1,305,560	$ (99,197)	$ 2,188,005	$ (104,625)

FASB guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the District intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the District does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The District performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes. Based on the results of all analyses, the District recognized other-than-temporary impairment during the first nine months of 2011 in connection with ABS securities and non-agency CMO securities in its portfolio, which is included in Impairment Losses on Investments in the Combined Statements of Income.

Since the District does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the other-than-temporary impairment of $3.5 million is separated into: (1) the estimated amount relating to credit loss ($8.7 million reflected in Net Income in the Combined Statements of Income), which is partially offset by (2) the amount relating to all other factors ($5.2 million reflected in other comprehensive income in the Combined Statement of Changes in Shareholders' Equity).

The District uses the present value of cash flows expected to be collected from the debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, degree and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used in this technique to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The District obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The forecasted cumulative default rates used at September 30, 2011 ranged from 1.69 percent to 44.87 percent for non-agency CMO securities and from 22.68 percent to 86.17 percent for ABS securities. Prepayment rate assumptions are based on forecasted prepayments and resulted in prepayment rates that ranged from 5.78 percent to 16.96 percent for non-agency CMO securities and from 3.14 percent to 5.61 percent for ABS securities at September 30, 2011. At September 30, 2011, the loss severity rates estimated from assumptions ranged from 5.09 percent to 64.52 percent for non-agency CMO securities and from 64.61 percent to 100.00 percent for ABS securities.

For all investments, other than the other-than-temporarily impaired securities discussed above, the District has not recognized any other-than-temporary impairment as the unrealized losses resulted from non-credit related factors. The District has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. Government agency securities and the District expects these securities would not be settled at a price less than their amortized cost. For the nine months ended September 30, 2011, net unrealized gains of $83.3 million were recognized in other comprehensive income for available-for-sale investments that were not other-than-temporarily impaired.

The following schedules detail the activity related to cumulative credit losses on investments recognized in earnings as of September 30, 2011 and 2010:

(dollars in thousands)	**For the nine months ended September 30, 2011**
Beginning balance at January 1, 2011	$ 45,077
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	1,463
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	7,215
Reductions for increases in expected cash flows	(812)
Ending balance at September 30, 2011	$ 52,943

(dollars in thousands)	**For the nine months ended September 30, 2010**
Beginning balance at January 1, 2010	$ 33,445
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	221
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	9,764
Ending balance at September 30, 2010	$ 43,430

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

For a complete description of the District's accounting for loans (including impaired loans and the allowance for loan losses) and definitions of loan types, see the 2010 Annual Report to Shareholders.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The District manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The District sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional loan rating structure, incorporating a 14-point risk rating scale (as discussed in Note 1 above) to identify and track a borrower's probability of default and a separate scale addressing loss given default. The loan rating structure calculates estimates of loss through two components, borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

A summary of loans outstanding follows:

(dollars in thousands)	September 30, 2011	December 31, 2010
Real estate mortgage	$ 9,844,073	$ 9,986,760
Production and intermediate-term	8,025,209	8,105,060
Agribusiness		
Loans to cooperatives	268,051	304,161
Processing and marketing	1,207,844	1,355,811
Farm-related business	352,382	342,984
Total agribusiness	1,828,277	2,002,956
Communication	202,862	200,578
Energy	306,373	342,614
Water and waste disposal	28,022	28,024
Rural residential real estate	2,418,423	2,258,480
Lease receivables	3,405	10,697
Loans to other financial institutions (OFIs)	12,250	5,000
Other (including mission-related)	79,578	92,724
Total Loans	$ 22,748,472	$ 23,032,893

The District may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. The following tables present participations purchased and sold balances at September 30, 2011 and December 31, 2010:

	September 30, 2011					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 120,586	$ 67,659	$ 113,659	$ 4,889	$ 234,245	$ 72,548
Production and intermediate-term	279,354	301,763	542,624	30,024	821,978	331,787
Agribusiness						
Loans to cooperatives	219,695	–	30,940	–	250,635	–
Processing and marketing	358,981	21,145	620,591	27,382	979,572	48,527
Farm-related business	109,099	7,701	24,727	920	133,826	8,621
Total agribusiness	687,775	28,846	676,258	28,302	1,364,033	57,148
Communication	203,206	–	–	–	203,206	–
Energy	279,198	–	23,652	–	302,850	–
Water and waste disposal	28,000	–	–	–	28,000	–
Rural residential real estate	–	–	53	–	53	–
Lease receivables	2,004	–	–	–	2,004	–
Loans to OFIs	–	–	12,250	–	12,250	–
Other (including mission-related)	–	–	10,206	–	10,206	–
Total	$ 1,600,123	$ 398,268	$ 1,378,702	$ 63,215	$ 2,978,825	$ 461,483

	December 31, 2010					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 140,835	$ 54,335	$ 346,913	$ 29,115	$ 487,748	$ 83,450
Production and intermediate-term	278,402	348,640	359,187	3,396	637,589	352,036
Agribusiness						
Loans to cooperatives	227,828	–	38,628	–	266,456	–
Processing and marketing	443,756	33,961	669,883	28,599	1,113,639	62,560
Farm-related business	58,881	5,975	39,893	–	98,774	5,975
Total agribusiness	730,465	39,936	748,404	28,599	1,478,869	68,535
Communication	198,433	–	–	–	198,433	–
Energy	315,137	–	22,434	–	337,571	–
Water and waste disposal	28,000	–	–	–	28,000	–
Rural residential real estate	–	–	539	–	539	–
Lease receivables	3,565	–	–	–	3,565	–
Loans to OFIs	–	–	5,000	–	5,000	–
Other (including mission-related)	–	–	11,759	–	11,759	–
Total	$ 1,694,837	$ 442,911	$ 1,494,236	$ 61,110	$ 3,189,073	$ 504,021

A significant source of liquidity for the District is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at September 30, 2011 and indicates that approximately 20.55 percent of loans had maturities of less than one year:

(dollars in thousands)	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 909,789	$ 2,829,048	$ 6,105,236	$ 9,844,073
Production and intermediate-term	2,925,915	3,164,972	1,934,322	8,025,209
Agribusiness				
Loans to cooperatives	68,176	98,479	101,396	268,051
Processing and marketing	506,713	529,437	171,694	1,207,844
Farm-related business	84,657	188,847	78,878	352,382
Total agribusiness	659,546	816,763	351,968	1,828,277
Communication	80,142	80,605	42,115	202,862
Energy	63,160	98,334	144,879	306,373
Water and waste disposal	22	–	28,000	28,022
Rural residential real estate	32,907	75,775	2,309,741	2,418,423
Lease receivables	1,690	1,541	174	3,405
Loans to OFIs	–	12,250	–	12,250
Other (including mission-related)	1,861	5,668	72,049	79,578
Total Loans	$ 4,675,032	$ 7,084,956	$ 10,988,484	$ 22,748,472

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Real estate mortgage:		
Acceptable	87.81%	87.46%
OAEM	5.31	5.48
Substandard/doubtful/loss	6.88	7.06
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	84.02%	83.80%
OAEM	8.03	9.10
Substandard/doubtful/loss	7.95	7.10
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	92.05%	86.38%
OAEM	6.95	11.93
Substandard/doubtful/loss	1.00	1.69
	100.00%	100.00%
Processing and marketing:		
Acceptable	83.65%	76.94%
OAEM	7.66	12.08
Substandard/doubtful/loss	8.69	10.98
	100.00%	100.00%
Farm-related business:		
Acceptable	94.16%	92.55%
OAEM	2.88	3.58
Substandard/doubtful/loss	2.96	3.87
	100.00%	100.00%
Total Agribusiness:		
Acceptable	86.91%	81.05%
OAEM	6.63	10.60
Substandard/doubtful/loss	6.46	8.35
	100.00%	100.00%
Communication:		
Acceptable	100.00%	98.83%
OAEM	–	–
Substandard/doubtful/loss	–	1.17
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	97.56%	95.64%
OAEM	0.71	3.26
Substandard/doubtful/loss	1.73	1.10
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.66%	98.40%
OAEM	0.47	0.57
Substandard/doubtful/loss	0.87	1.03
	100.00%	100.00%
Lease receivables:		
Acceptable	84.08%	92.48%
OAEM	8.30	2.51
Substandard/doubtful/loss	7.62	5.01
	100.00%	100.00%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including mission-related):		
Acceptable	85.30%	77.07%
OAEM	5.61	7.91
Substandard/doubtful/loss	9.09	15.02
	100.00%	100.00%
Total Loans:		
Acceptable	87.79%	86.87%
OAEM	5.75	6.65
Substandard/doubtful/loss	6.46	6.48
	100.00%	100.00%

The following tables provide an age analysis of past due loans and related accrued interest as of September 30, 2011 and December 31, 2010:

September 30, 2011						
(dollars in thousands)	30 Through 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 or More Past Due and Accruing Interest
Real estate mortgage	$ 133,031	$ 241,647	$ 374,678	$ 9,570,819	$ 9,945,497	$ 4,431
Production and intermediate-term	54,392	211,868	266,260	7,846,278	8,112,538	481
Agribusiness						
Loans to cooperatives	111	2,698	2,809	266,735	269,544	–
Processing and marketing	605	12,716	13,321	1,200,263	1,213,584	–
Farm-related business	2,101	7,557	9,658	344,351	354,009	–
Total agribusiness	2,817	22,971	25,788	1,811,349	1,837,137	–
Communication	–	–	–	203,238	203,238	–
Energy and water/waste disposal	–	5,826	5,826	330,647	336,473	–
Rural residential real estate	42,698	12,036	54,734	2,372,530	2,427,264	4,742
Lease receivables	–	87	87	3,341	3,428	–
Loans to OFIs	–	–	–	12,267	12,267	–
Other (including mission-related)	1,367	1,137	2,504	78,113	80,617	–
Total	$ 234,305	$ 495,572	$ 729,877	$ 22,228,582	$ 22,958,459	$ 9,654

December 31, 2010						
(dollars in thousands)	30 Through 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 or More Past Due and Accruing Interest
Real estate mortgage	$ 106,498	$ 272,080	$ 378,578	$ 9,692,300	$ 10,070,878	$ 4,604
Production and intermediate-term	82,377	173,946	256,323	7,921,721	8,178,044	1,195
Agribusiness						
Loans to cooperatives	–	4,907	4,907	300,486	305,393	–
Processing and marketing	4,944	1,156	6,100	1,354,210	1,360,310	–
Farm-related business	484	7,668	8,152	336,435	344,587	–
Total agribusiness	5,428	13,731	19,159	1,991,131	2,010,290	–
Communication	–	–	–	200,910	200,910	–
Energy and water/waste disposal	–	–	–	372,618	372,618	–
Rural residential real estate	46,403	13,157	59,560	2,207,139	2,266,699	6,374
Lease receivables	81	90	171	10,596	10,767	–
Loans to OFIs	–	–	–	5,008	5,008	–
Other (including mission-related)	–	6,040	6,040	87,502	93,542	543
Total	$ 240,787	$ 479,044	$ 719,831	$ 22,488,925	$ 23,208,756	$ 12,716

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.

Nonperforming assets (including related accrued interest) and related credit quality statistics at September 30, 2011 and December 31, 2010 are summarized as follows:

(dollars in thousands)	September 30, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	$ 387,473	$ 405,976
Production and intermediate-term	341,069	317,832
Agribusiness		
Loans to cooperatives	2,695	4,911
Processing and marketing	24,052	36,302
Farm-related business	7,977	8,195
Total agribusiness	34,724	49,408
Communication	–	2,358
Energy and water/waste disposal	5,819	–
Rural residential real estate	15,316	12,246
Lease receivables	261	279
Other (including mission-related)	2,225	6,977
Total nonaccrual loans	$ 786,887	$ 795,076
Accruing restructured loans:		
Real estate mortgage	$ 10,555	$ 7,730
Production and intermediate-term	16,158	10,818
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	36,023	30,683
Farm-related business	–	–
Total agribusiness	36,023	30,683
Communication	–	–
Energy and water/waste disposal	–	–
Rural residential real estate	590	–
Lease receivables	–	–
Other (including mission-related)	–	–
Total accruing restructured loans	$ 63,326	$ 49,231
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 4,431	$ 4,604
Production and intermediate-term	481	1,195
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Farm-related business	–	–
Total agribusiness	–	–
Communication	–	–
Energy and water/waste disposal	–	
Rural residential real estate	4,742	6,374
Lease receivables	–	–
Other (including mission-related)	–	543
Total accruing loans 90 days or more past due	$ 9,654	$ 12,716
Total nonperforming loans	$ 859,867	$ 857,023
Other property owned	145,339	146,416
Total nonperforming assets	$ 1,005,206	$ 1,003,439
Nonaccrual loans as a percentage of total loans	3.46%	3.45%
Nonperforming assets as a percentage of total loans and other property owned	4.39%	4.33%
Nonperforming assets as a percentage of capital	22.06%	24.14%

The following table presents information relating to impaired loans (including accrued interest) at September 30, 2011 and December 31, 2010. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

(dollars in thousands)	September 30, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	$ 240,469	$ 268,131
Past due	546,418	526,945
Total impaired nonaccrual loans	786,887	795,076
Impaired accrual loans:		
Restructured	63,326	49,231
90 days or more past due	9,654	12,716
Total impaired accrual loans	72,980	61,947
Total impaired loans	$ 859,867	$ 857,023

Additional impaired loan information as of September 30, 2011 and December 31, 2010 is summarized as follows:

	September 30, 2011			Quarter Ended September 30, 2011		For the Nine Months Ended September 30, 2011	
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 143,387	$ 168,625	$ 24,598	$ 165,295	$ 733	$ 146,030	$ 1,713
Production and intermediate-term	168,747	216,847	39,875	181,684	904	178,078	2,196
Agribusiness							
Loans to cooperatives	–	–	–	–	–	248	–
Processing and marketing	7,410	7,718	1,392	11,687	14	23,757	28
Farm-related business	5,206	5,742	111	5,400	21	6,426	71
Total agribusiness	12,616	13,460	1,503	17,087	35	30,431	99
Energy and water/waste disposal	–	–	–	–	–	4,404	–
Rural residential real estate	6,495	7,887	1,943	6,715	47	5,670	88
Lease Receivables	87	88	56	90	–	123	1
Other (including mission-related)	–	–	–	–	–	1,032	–
Total	$ 331,332	$ 406,907	$ 67,975	$ 370,871	$ 1,719	$ 365,768	$ 4,097
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 259,072	$ 369,140	$ –	$ 253,920	$ 1,305	$ 261,237	$ 3,173
Production and intermediate-term	188,961	261,827	–	203,157	732	195,243	2,274
Agribusiness							
Loans to cooperatives	2,695	2,892	–	3,705	(15)	3,579	37
Processing and marketing	52,665	87,228	–	46,981	624	43,261	1,614
Farm-related business	2,771	5,517	–	2,874	30	1,714	37
Total agribusiness	58,131	95,637	–	53,560	639	48,554	1,688
Energy and water/waste disposal	5,819	11,293	–	6,892	14	4,408	79
Rural residential real estate	14,153	17,128	–	9,407	(3)	10,404	188
Lease receivables	174	194	–	181	1	239	3
Other (including mission-related)	2,225	4,023	–	2,753	15	3,067	15
Total	$ 528,535	$ 759,242	$ –	$ 529,870	$ 2,703	$ 523,152	$ 7,420
Total impaired loans:							
Real estate mortgage	$ 402,459	$ 537,765	$ 24,598	$ 419,215	$ 2,038	$ 407,267	$ 4,886
Production and intermediate-term	357,708	478,674	39,875	384,841	1,636	373,321	4,470
Agribusiness							
Loans to cooperatives	2,695	2,892	–	3,705	(15)	3,827	37
Processing and marketing	60,075	94,946	1,392	58,668	638	67,018	1,642
Farm-related business	7,977	11,259	111	8,274	51	8,140	108
Total agribusiness	70,747	109,097	1,503	70,647	674	78,985	1,787
Energy and water/waste disposal	5,819	11,293	–	6,892	14	8,812	79
Rural residential real estate	20,648	25,015	1,943	16,122	44	16,074	276
Lease receivables	261	282	56	271	1	362	4
Other (including mission-related)	2,225	4,023	–	2,753	15	4,099	15
Total	$ 859,867	$ 1,166,149	$ 67,975	$ 900,741	$ 4,422	$ 888,920	$ 11,517

	December 31, 2010			Year Ended December 31, 2010	
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 135,561	$ 155,495	$ 26,847	$ 139,818	$ 2,127
Production and intermediate-term	158,444	220,702	36,722	144,517	2,651
Agribusiness					
Loans to cooperatives	4,036	4,001	1,032	3,596	57
Processing and marketing	29,542	30,924	3,566	26,320	419
Farm-related business	6,006	6,477	496	5,351	85
Total agribusiness	39,584	41,402	5,094	35,267	561
Rural residential real estate	3,438	3,630	1,133	3,250	69
Other (including mission-related)	1,546	1,546	600	1,454	–
Total	$ 338,573	$ 422,775	$ 70,396	$ 324,306	$ 5,408
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 282,749	$ 365,516	$ –	$ 296,743	$ 4,142
Production and intermediate-term	171,401	183,098	–	182,582	3,816
Agribusiness					
Loans to cooperatives	875	834	–	779	13
Processing and marketing	37,443	49,319	–	48,931	3,234
Farm-related business	2,189	4,697	–	1,951	31
Total agribusiness	40,507	54,850	–	51,661	3,278
Communication	2,358	4,912	–	2,101	33
Rural residential real estate	15,182	18,458	–	14,302	307
Lease receivables	279	298	–	249	4
Other (including mission-related)	5,974	5,907	–	6,147	167
Total	$ 518,450	$ 633,039	$ –	$ 553,785	$ 11,747
Total impaired loans:					
Real estate mortgage	$ 418,310	$ 521,011	$ 26,847	$ 436,561	$ 6,269
Production and intermediate-term	329,845	403,800	36,722	327,099	6,467
Agribusiness					
Loans to cooperatives	4,911	4,835	1,032	4,375	70
Processing and marketing	66,985	80,243	3,566	75,251	3,653
Farm-related business	8,195	11,174	496	7,302	116
Total agribusiness	80,091	96,252	5,094	86,928	3,839
Communication	2,358	4,912	–	2,101	33
Rural residential real estate	18,620	22,088	1,133	17,552	376
Lease receivables	279	298	–	249	4
Other (including mission-related)	7,520	7,453	600	7,601	167
Total	$ 857,023	$ 1,055,814	$ 70,396	$ 878,091	$ 17,155

Unpaid principal balance represents the contractual principal balance of the loan.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at September 30, 2011 and December 31, 2010.

A summary of changes in the allowance for loan losses and period end recorded investment in loans at September 30, 2011 and December 31, 2010 follows:

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including mission related)	Total
	September 30, 2011								
Allowance for credit losses:									
Balance at December 31, 2010	$ 73,636	$ 83,759	$ 19,735	$ 415	$ 599	$ 3,117	$ 67	$ 1,001	$ 182,329
Charge-offs	(49,883)	(61,938)	(22,263)	–	(7,068)	(1,865)	(20)	(1,273)	(144,310)
Recoveries	2,049	1,384	66	825	–	116	20	–	4,460
Provision for loan losses	54,488	73,093	16,509	(901)	6,897	2,478	9	861	153,434
Adjustment due to merger	(8,845)	(5,948)	(1,101)	(10)	–	(193)	–	–	(16,097)
Other	(349)	335	(24)	–	–	38	–	–	–
Balance at September 30, 2011	$ 71,096	$ 90,685	$ 12,922	$ 329	$ 428	$ 3,691	$ 76	$ 589	$ 179,816
September 30, 2011 allowance ending balance:									
Loans individually evaluated for impairment	$ 24,598	$ 39,875	$ 1,503	$ –	$ –	$ 1,943	$ 56	$ –	$ 67,975
Loans collectively evaluated for impairment	$ 46,020	$ 50,277	$ 11,371	$ 329	$ 428	$ 1,668	$ 20	$ 589	$ 110,702
Loans acquired with deteriorated credit quality	$ 478	$ 533	$ 48	$ –	$ –	$ 80	$ –	$ –	$ 1,139
Recorded investment in loans outstanding:									
Ending Balance at September 30, 2011	$ 9,945,497	$ 8,112,538	$ 1,837,137	$ 203,238	$ 336,473	$ 2,427,264	$ 3,428	$ 92,884	$ 22,958,459
September 30, 2011 recorded investment ending balance:									
Loans individually evaluated for impairment	$ 612,538	$ 610,046	$ 356,319	$ –	$ 81,952	$ 2,008,169	$ 262	$ 5,785	$ 3,675,071
Loans collectively evaluated for impairment	$ 9,300,332	$ 7,493,176	$ 1,479,103	$ 203,238	$ 254,521	$ 417,351	$ 3,166	$ 87,099	$ 19,237,986
Loans acquired with deteriorated credit quality	$ 32,627	$ 9,316	$ 1,715	$ –	$ –	$ 1,744	$ –	$ –	$ 45,402

	December 31, 2010								
(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including mission related)	Total
Allowance for credit losses:									
Balance at December 31, 2009	$ 66,642	$ 88,851	$ 33,148	$ 1,822	$ 518	$ 3,598	$ 7	$ 546	$ 195,132
Charge-offs	(84,319)	(63,796)	(12,611)	(2,554)	–	(2,605)	(63)	–	(165,948)
Recoveries	3,398	10,448	985	–	–	86	–	–	14,917
Provision for loan losses	87,915	48,256	(1,787)	1,147	81	2,038	123	455	138,228
Balance at December 31, 2010	$ 73,636	$ 83,759	$ 19,735	$ 415	$ 599	$ 3,117	$ 67	$ 1,001	$ 182,329
December 31, 2010 allowance ending balance:									
Loans individually evaluated for impairment	$ 26,847	$ 36,722	$ 5,094	$ –	$ –	$ 1,133	$ –	$ 600	$ 70,396
Loans collectively evaluated for impairment	$ 46,789	$ 47,037	$ 14,641	$ 415	$ 599	$ 1,984	$ 67	$ 401	$ 111,933
Recorded investment in loans outstanding:									
Ending Balance at December 31, 2010	$ 10,070,878	$ 8,178,044	$ 2,010,290	$ 200,910	$ 372,618	$ 2,266,699	$ 10,767	$ 98,550	$ 23,208,756
December 31, 2010 recorded investment ending balance:									
Loans individually evaluated for impairment	$ 599,576	$ 620,545	$ 307,028	$ 2,358	$ 79,917	$ 1,835,765	$ 6,438	$ 10,754	$ 3,462,381
Loans collectively evaluated for impairment	$ 9,471,302	$ 7,557,499	$ 1,703,262	$ 198,552	$ 292,701	$ 430,934	$ 4,329	$ 87,796	$ 19,746,375

Purchased Impaired Loans Disclosures

District entities acquire loans individually and in groups or portfolios. For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the holder would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or whether such loans would be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. It then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all purchased impaired loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

As discussed in Note 11, effective January 1, 2011, Farm Credit of North Florida, ACA (NFL), and Farm Credit of Southwest Florida, ACA (SWFL), merged with and into Farm Credit of South Florida, ACA (SFL), which then changed its name to Farm Credit of Florida, ACA (FCFL). The merger was accounted for under the acquisition method of accounting guidance.

In connection with the merger, SFL (now FCFL) purchased impaired loans from NFL and SWFL that are not accounted for as debt securities. The carrying amounts of those loans included in the balance sheet amounts of loans receivable at September 30, 2011, were as follows.

(dollars in thousands)		**September 30, 2011**
Real estate mortgage	$	32,627
Production and intermediate-term		9,316
Agribusiness		
Loans to cooperatives		–
Processing and marketing		–
Farm-related business		1,715
Total agribusiness		1,715
Communication		–
Energy		–
Rural residential real estate		1,744
Total Loans	$	45,402

At September 30, 2011, the allowance for loan losses related to these loans was $1.1 million. During the period ended September 30, 2011, provision expense on these loans was $4.1 million. There were no reversals of allowance for loan losses during the period ended September 30, 2011 for these acquired loans. See above for a summary of changes in the total allowance for loan losses for the period ended September 30, 2011.

The total of loans acquired during 2011 for which it was probable at acquisition that all contractually required payments would not be collected are as follows.

(dollars in thousands)		
Real estate mortgage	$	57,735
Production and intermediate-term		18,862
Agribusiness		
Loans to cooperatives		–
Processing and marketing		2,196
Farm-related business		1,734
Total agribusiness		3,930
Communication		–
Energy		–
Rural residential real estate		1,769
Total Loans	$	82,296

Certain of the loans acquired by FCFL in the business combination that are within the scope of purchased impaired loan guidance are not accounted for using that income recognition model because FCFL cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. As discussed previously, the real estate market in Florida is extremely unstable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, FCFL does not have the information necessary to reasonably estimate cash flows expected to be collected to compute its yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance. The purchase value of such impaired loans acquired during the year totaled $82.3 million. The carrying amount at September 30, 2011 was $45.4 million. These amounts are included in the carrying values, net of allowance, described above.

NOTE 4 — FAIR VALUE MEASUREMENT

FASB guidance on fair value measurements defines fair value, establishes a framework for measuring fair value, and requires fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. For the District, these assets and liabilities consist primarily of investments available-for-sale, highly-liquid funds, derivative assets and liabilities, assets held in trust funds, standby letters of credit, impaired loans, other property owned, and collateral liabilities.

This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

A detailed description of the three levels of inputs and the classification of the District's financial instruments within the fair value hierarchy is contained in the 2010 Annual Report to Shareholders.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at September 30, 2011 and December 31, 2010 for each of the fair value hierarchy levels:

	September 30, 2011			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	$ –	$ 5,038,896	$ –	$ 5,038,896
U.S. Govt. Agency MBS	–	1,660,043	–	1,660,043
Non-Agency CMOs	–	–	247,534	247,534
Commercial MBS	–	535	–	535
Asset-backed securities	–	–	29,576	29,576
Mission Related Investments	–	51,923	–	51,923
Total investments available-for-sale	–	6,751,397	277,110	7,028,507
Commercial paper, bankers' acceptances, CD's & others	–	10,000	–	10,000
Federal funds sold, securities purchased under resale agreements, and other	–	82,312	–	82,312
Interest rate swaps and other financial instruments	–	56,647	–	56,647
Assets held in trust funds	11,989	–	–	11,989
Total Assets	$ 11,989	$ 6,900,356	$ 277,110	$ 7,189,455
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ –	$ –	$ –
Collateral liabilities	–	25,475	–	25,475
Standby letters of credit	–	–	3,230	3,230
Total Liabilities	$ –	$ 25,475	$ 3,230	$ 28,705

(dollars in thousands)	December 31, 2010 Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	$ –	$ 4,947,011	$ –	$ 4,947,011
U.S. Govt. Agency MBS	–	1,747,391	–	1,747,391
Non-Agency CMOs	–	–	295,526	295,526
Commercial MBS	–	925	–	925
Asset-backed securities	–	–	34,437	34,437
Total investments available-for-sale	–	6,695,327	329,963	7,025,290
Commercial paper, bankers' acceptances, CD's & others	–	52,000	–	52,000
Federal funds sold, securities purchased under resale agreements, and other	–	8,744	–	8,744
Interest rate swaps and other financial instruments	–	62,245	–	62,245
Assets held in trust funds	11,511	–	–	11,511
Total Assets	$ 11,511	$ 6,818,316	$ 329,963	$ 7,159,790
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ 8,781	$ –	$ 8,781
Collateral liabilities	–	18,315	–	18,315
Standby letters of credit	–	–	3,336	3,336
Total Liabilities	$ –	$ 27,096	$ 3,336	$ 30,432

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2011 and 2010. The District had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first nine months of 2011 and 2010.

(dollars in thousands)	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters of Credit
Balance at January 1, 2011	$ 34,437	$ 295,526	$ 3,336
Total gains or (losses) realized/unrealized:			
Included in earnings	(2,771)	(5,096)	–
Included in other comprehensive income (loss)	2,846	7,858	–
Purchases	–	–	–
Sales	–	–	–
Issuances	–	–	503
Settlements	(4,936)	(50,754)	(609)
Transfers in and/or out of level 3	–	–	–
Balance at September 30, 2011	$ 29,576	$ 247,534	$ 3,230

(dollars in thousands)	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters of Credit
Balance at January 1, 2010	$ 47,465	$ 360,027	$ 5,236
Total gains or (losses) realized/unrealized:			
Included in earnings	(7,139)	(2,846)	–
Included in other comprehensive income (loss)	12,013	34,491	–
Purchases, sales, issuances and settlements, net	(11,936)	(70,171)	(1,315)
Transfers in and/or out of level 3	–	–	–
Balance at September 30, 2010	$ 40,403	321,501	$ 3,921

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis at September 30, 2011 and December 31, 2010 for each of the fair value hierarchy values are summarized below:

	September 30, 2011				
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**YTD Total Gains (Losses)**
Assets:					
Impaired loans	$ –	$ –	$ 239,467	$ 239,467	$ (144,934)
Other property owned	–	–	136,647	136,647	(25,031)

	December 31, 2010				
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**YTD Total Gains (Losses)**
Assets:					
Impaired loans	$ –	$ –	$ 265,901	$ 265,901	$ (129,881)
Other property owned	–	–	148,553	148,553	(28,269)

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the District's financial instruments at September 30, 2011 and December 31, 2010. Carrying amounts include accrued interest if applicable.

Quoted market prices are generally not available for certain Systemwide debt securities, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

	September 30, 2011		December 31, 2010	
(dollars in thousands)	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets:				
Loans, net of allowance	$ 22,778,643	$ 23,063,981	$ 23,026,427	$ 23,063,218
Derivative assets	56,647	56,647	62,245	62,245
Cash and cash equivalents	1,729,765	1,729,765	1,463,700	1,463,700
Investment securities	8,075,645	8,144,210	8,279,655	8,323,378
Other investments	234,986	244,975	305,959	319,168
Assets held in trust funds	11,989	11,989	11,511	11,511
Financial liabilities:				
Bonds and notes	$ 27,923,721	$ 28,069,128	$ 28,582,672	$ 28,485,071
Derivative liabilities	–	–	8,781	8,781

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

A. **Loans:** Because no active market exists for the District's loans, fair value is estimated by discounting the expected future cash flows using the District's current interest rates at which similar loans currently would be made to borrowers with similar credit risk.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. The carrying value of accrued interest approximates its fair value.

B. **Cash and Cash Equivalents:** The carrying value is primarily utilized as a reasonable estimate of fair value.

C. **Investment Securities:** Fair value is primarily based upon prices obtained from a third party valuation service. See additional information in Note 4.

D. **Other Investments:** Fair value is estimated by discounting future annual cash flows using prevailing rates for similar instruments at year-end.

E. **Bonds and Notes:** Systemwide bonds and notes are not regularly traded; thus, quoted market prices are not available. Fair value of these instruments is estimated by discounting expected future cash flows based on the quoted market price of similar maturity Treasury notes, assuming a constant estimated spread relationship between Systemwide bonds and notes and comparable Treasury notes.

F. **Derivative Instruments:** The fair value of derivatives is the estimated amount to be received or paid to replace the instruments at the reporting date, considering current and projected interest rates. Where actively quoted market prices do not exist, estimated fair values are determined through internal market valuation models. See additional information in Note 8.

G. **Assets Held In Trust Funds:** See Note 4 for discussion of estimation of fair value for these assets.

NOTE 6 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each Farm Credit System (System) bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the banks are jointly and severally liable for the bonds and notes of the other System banks. The bonds and notes of the System totaled $183.361 billion at September 30, 2011.

Legal actions are pending against AgFirst and certain District Associations in which claims for money damages are asserted. On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the combined financial position of AgFirst and District Associations.

NOTE 7 — EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the District:

	For the nine months ended September 30,	
(dollars in thousands)	**2011**	**2010**
Pension	$ 35,535	$ 36,130
401k	4,790	4,395
Other postretirement benefits	7,763	6,435
Total	$ 48,088	$ 46,960

The following is a table of retirement and other postretirement benefit contributions for the District. Projections are based upon actuarially determined amounts as of the most recent measurement date of December 31, 2010.

(dollars in thousands)	**Actual YTD Through 9/30/11**	**Projected Contributions for Remainder of 2011**	**Projected Total Contributions 2011**
Pensions	$ 447	$ 48,547	$ 48,994
Other postretirement benefits	4,715	2,493	7,208
Total	$ 5,162	$ 51,040	$ 56,202

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the District participates. These amounts may change when a total funding amount and allocation is determined by the respective Plans' Sponsor Committees. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2011.

Further details regarding employee benefit plans are contained in the 2010 Annual Report to Shareholders.

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The District's goal is to minimize interest rate sensitivity by managing the repricing characteristics of assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. The District maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to lower cost of funding or to reduce interest rate risk. Currently, the primary derivative type used by the District is interest rate swaps, which convert fixed interest rate debt to a lower floating interest rate than was achievable from issuing floating rate debt with identical repricing characteristics. They may allow the District to lower funding costs, allow it to diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Interest rate swaps enable the District to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the District if floating rate borrowings were made directly. Under these arrangements, the District agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

The District may also purchase interest rate derivatives such as caps, in order to reduce the impact of rising interest rates on its floating-rate debt, and floors, in order to reduce the impact of falling interest rates on its floating-rate assets. In addition, the District may also fix a price to be paid in the future which qualifies as a derivative forward contract.

As a result of interest rate fluctuations, interest income and interest expense related to hedged variable-rate assets and liabilities, respectively, will increase or decrease. Another result of interest rate fluctuations is that hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effects of any earnings variability or unrealized changes in market value are expected to be substantially offset by the District's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The District considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The primary type of derivative instrument used and the amount of activity for the nine months ended September 30, 2011 is summarized in the following table:

Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ 1,135	$ 445
Additions	–	263
Maturities/amortization	(500)	(688)
Terminations	–	–
Balance at end of period	$ 635	$ 20

By using derivative instruments, the District exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the District's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the District, thus creating a repayment risk for the District. When the fair value of the derivative contract is negative, the District owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the District deals with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of and levels of exposure to individual counterparties. The estimated gross credit risk exposure at September 30, 2011 of $56.6 million was with six counterparties and represented approximately 8.87 percent of the total notional amount of interest rate swaps. The District held $25.5 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The District does not anticipate nonperformance by any of these counterparties. The estimated gross credit risk exposure at December 31, 2010 of $62.2 million was with seven counterparties and represented approximately 5.48 percent of the total notional amount of interest rate swaps. The District held $18.3 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The District typically enters into master agreements that contain netting provisions. These provisions allow the District to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties. At period end, the District had not posted collateral with respect to any of these arrangements.

The District's derivative activities which are performed by the Bank, are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of the District's asset/liability and treasury functions. The Bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by the Bank's Board of Directors through the Bank's analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the District's overall interest rate risk-management strategies.

Fair-Value Hedges

For derivative instruments designated as fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the nine months ended September 30, 2011 was $5.9 million, while the amount of the gain on the Systemwide debt securities was $5.9 million. The amount of the gain on interest rate swaps recognized in interest expense for the nine months ended September 30, 2010 was $10.6 million, while the amount of the loss on the Systemwide debt securities was $10.6 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

From time to time, the District may acquire when-issued securities, generally Government National Mortgage Association (GNMA) bonds. The when-issued transactions are contracts to purchase securities that will not be delivered until 30 or more days in the future. These purchase commitments are considered derivatives (cash flow hedges) in the form of forward contracts. Changes in market value of the contracted securities, between purchase and settlement date, represent the effective portion of the District's forward contracts. These amounts are included in Other Comprehensive Income (OCI), and Other Liabilities or Other Assets as appropriate, as firm commitments in the District's Combined Balance Sheet for each period end.

At September 30, 2011 the District had committed to purchase $20.5 million in when-issued GNMA bonds that had a market value of $20.8 million, a $335 thousand increase in value. At December 31, 2010 the District had committed to purchase $444.5 million in when-issued GNMA bonds that had a market value of $435.7 million, an $8.8 million decline in value.

For derivative instruments that are designated and qualify as a cash flow hedge, such as the District's forward contracts, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Fair Values of Derivative Instruments

The following tables represent the fair value of derivative instruments at September 30, 2011 and December 31, 2010:

(dollars in thousands)	Balance Sheet Classification – Assets	9/30/11 Fair Value	Balance Sheet Classification - Liabilities	9/30/11 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 56,312	Other Liabilities	$ –
Forward contracts	Other Assets	335	Other Liabilities	–
Total		$ 56,647		$ –

(dollars in thousands)	Balance Sheet Classification - Assets	12/31/10 Fair Value	Balance Sheet Classification – Liabilities	12/31/10 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 62,245	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	8,781
Total		$ 62,245		$ 8,781

The following table sets forth the amount of net gain (loss) recognized in the Combined Statement of Income for the nine months ended September 30, 2011 and 2010.

(dollars in thousands)	Location of Gain or (Loss) Recognized in the Statement of Income	2011 Amount of Gain or (Loss) Recognized in the Statement of Income	2010 Amount of Gain or (Loss) Recognized in the Statement of Income
Derivatives – Fair Value Hedging Relationships:			
Receive-fixed swaps	Noninterest Income	$ –	$ 131
Total		$ –	$ 131

The following table sets forth the amount of net gain (loss) recognized in the Combined Statements of Income for the nine months ended September 30, 2011 and 2010 and the amount of net gain (loss) recognized in the Combined Balance Sheets for September 30, 2011 and December 31, 2010.

(dollars in thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2011	**2010**		**2011**	**2010**		**2011**	**2010**
Derivatives – Cash Flow Hedging Relationships:								
Firm Commitments	$ 2,702	$ (8,751)	Interest Income	$ (208)	$ –	Interest Income	$ –	$ –

NOTE 9 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data

(dollars in thousands)	**9/30/11** *(unaudited)*	**12/31/10** *(audited)*
Cash, cash equivalents and investment securities	$ 9,584,320	$ 9,503,711
Loans	20,428,537	20,905,165
Less: allowance for loan losses	28,109	14,873
Net loans	20,400,428	20,890,292
Other assets	340,398	387,563
Total assets	$ 30,325,146	$ 30,781,566
Bonds and notes	$ 27,681,591	$ 28,325,569
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	170,914	328,216
Total liabilities	28,077,505	28,878,785
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	409,500	417,333
Retained earnings	1,323,978	1,053,119
Accumulated other comprehensive income (loss)	114,163	32,329
Total shareholders' equity	2,247,641	1,902,781
Total liabilities and equity	$ 30,325,146	$ 30,781,566

Statement of Income Data

(dollars in thousands)	For the nine months ended September 30, 2011 *(unaudited)*	2010 *(unaudited)*
Interest income	$ 672,167	$ 721,931
Interest expense	230,240	300,774
Net interest income	441,927	421,157
Provision for loan losses	58,273	33,626
Net interest income after provision for loan losses	383,654	387,531
Noninterest expense, net	89,138	80,334
Net income	$ 294,516	$ 307,197

NOTE 10 — REGULATORY ENFORCEMENT MATTERS

At September 30, 2011, FCA had entered into written supervisory agreements with three District Associations with combined assets of approximately $950.0 million. Those agreements require the three District Associations to take corrective actions with respect to certain areas of their operations, including capital, portfolio management, and asset quality. These enforcement actions are not expected to have a significant impact on the Bank's or District's financial condition or results of operations.

NOTE 11 – DISTRICT MERGER ACTIVITY

Effective January 1, 2011, Farm Credit of North Florida, ACA, and Farm Credit of Southwest Florida, ACA, merged with and into Farm Credit of South Florida, ACA, after the FCA granted final approval of the merger on December 20, 2010. Farm Credit of South Florida then changed its name to Farm Credit of Florida, ACA. The merger was accounted for under the acquisition method of accounting guidance.

Prior to the merger, those Associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged Association. This agreement relates only to a finite pool of high risk assets of the merged Association existing at the merger date, which had a net total of approximately $199.0 million and $250.0 million at September 30, 2011, and January 1, 2011, respectively. Through this agreement, the merged Association will absorb substantial losses on these high risk assets in advance of the Bank providing financial assistance. This financial "safety net" from the Bank does not include losses that are sustained outside of the high risk asset pool. The agreement provides protection to the Bank, such as limitation on the Association's ability to make patronage distributions and certain other restrictions which are imposed if the merged Association's capital levels fail to meet minimum established levels. Assistance under the agreement, if any, is not expected to have a material impact on the financial condition of the Bank or District.

As the accounting acquirer, South Florida accounted for the transaction by using its historical information and accounting policies and adding the identifiable assets and liabilities of North Florida and Southwest Florida as of the acquisition date of January 1, 2011 at their respective fair values.

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

Management believes that because the stock in each association is fixed in value (although subject to impairment), the Association's stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the Association identified and estimated the acquisition date fair value of North Florida and Southwest Florida's equity interests instead of the fair value of South Florida's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from North Florida and Southwest Florida, was measured based on various estimates using assumptions that the Association's management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. As a result, management recorded no goodwill.

The following table reflects the fair values of the identifiable assets acquired and liabilities assumed from North Florida and Southwest Florida as well as the merged entity balances at January 1, 2011:

Consolidation of Fair Value of Assets Acquired and Liabilities Assumed at January 1, 2011

(dollars in thousands)	SW Florida *(unaudited)*	North Florida *(unaudited)*	South Florida *(unaudited)*	Florida *(unaudited)*
Assets	$ –	$ 13	$ 2,790	$ 2,803
Cash				
Investment securities:				
Held to maturity	39,553	–	1,987	41,540
Loans	215,972	385,302	559,912	1,161,186
Less: allowance for loan losses	–	–	10,679	10,679
Net loans	215,972	385,302	549,233	1,150,507
Other investments	–	10,639	–	10,639
Accrued interest receivable	1,405	1,871	2,086	5,362
Investments in other Farm Credit institutions	6,495	9,486	8,716	24,697
Premises and equipment, net	867	2,575	5,348	8,790
Other property owned	2,173	6,310	4,516	12,999
Due from AgFirst Farm Credit Bank	2,337	4,038	4,484	10,859
Other assets	4,924	3,887	4,658	13,469
Total assets	$ 273,726	$ 424,121	$ 583,818	$ 1,281,665
Liabilities				
Notes payable to AgFirst Farm Credit Bank	$ 242,347	$ 369,481	$ 454,284	$ 1,066,112
Accrued interest payable	482	823	1,006	2,311
Patronage refund payable	15	40	671	726
Advanced conditional payments	–	407	3,710	4,117
Other liabilities	3,312	4,345	5,119	12,776
Total liabilities	246,156	375,096	464,790	1,086,042
Commitments and contingencies				
Members' Equity				
Protected borrower stock	227	40	2,463	2,730
Capital stock and participation certificates	525	1,411	635	2,571
Additional paid in capital	1,341	6,702	(121)	7,922
Retained earnings				
Allocated	25,592	40,872	30,879	97,343
Unallocated	–	–	85,057	85,057
Accumulated other comprehensive income (loss)	(115)	–	115	–
Total members' equity	27,570	49,025	119,028	195,623
Total liabilities and members' equity	$ 273,726	$ 424,121	$ 583,818	$ 1,281,665

Disclosures related to acquired impaired loans are contained in Note 3, *Loans and Allowance for Loan Losses*.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of the merger, but of only the acquirer for previous periods.

NOTE 12 — SUBSEQUENT EVENTS

The District has evaluated subsequent events and has determined there are none requiring disclosure through November 7, 2011, which is the date the financial statements were issued.