AgFirst Farm Credit Bank

Quarterly Report

First Quarter 2011

FIRST QUARTER 2011

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2011 quarterly report of AgFirst Farm Credit Bank, 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

May 9, 2011

Report on Internal Control Over Financial Reporting

The Bank's 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's 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'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 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, (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 (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its Financial Statements.

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 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 concluded that as of March 31, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2011.

F.A. Lowrey
Chief Executive Officer

Charl L. Butler
Chief Financial Officer

May 9, 2011

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three month period ended March 31, 2011. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2010 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, the three months results of operations may not be indicative of an entire year due to the seasonal nature of a portion of AgFirst's business.

FINANCIAL CONDITION

Loan Portfolio

AgFirst's loan portfolio consists primarily of direct loans to District Associations (Direct Notes), loan participations/syndications purchased, Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to Other Financing Institutions (OFIs) as shown below:

AgFirst Loan Portfolio *(dollars in thousands)*	**March 31, 2011**		**December 31, 2010**		**March 31, 2010**	
Direct Notes	$14,201,019	69.62%	$14,778,448	70.69%	$ 14,297,257	69.24%
Participations/Syndications purchased, net	4,153,088	20.36	4,163,794	19.92	4,604,384	22.30
Correspondent Lending	2,035,890	9.98	1,957,923	9.37	1,740,498	8.43
Loans to OFIs	8,000	0.04	5,000	0.02	6,500	0.03
Total	$20,397,997	100.00%	$20,905,165	100.00%	$ 20,648,639	100.00%

Total loans outstanding were $20.398 billion at March 31, 2011, a decrease of $507.2 million, or 2.43 percent, compared to total loans outstanding at December 31, 2010. The decline in loan volume since 2010 year end is primarily due to Bank patronage payments to Associations of approximately $188.3 million, which were applied to the Association Direct Notes at the beginning of 2011, and the seasonal nature of District lending activity as borrowers typically pay down loans during the first quarter using proceeds from crop sales. Reduced loan demand from the continued relative weakness in the general economy is also a reason for the decline in loan volume.

The prolonged weakness in the economy has affected the Bank's and District Associations' current and prospective customers in a number of ways, including fluctuating demand and prices for certain agricultural products and lower value for real estate and other investment holdings of some borrowers. These conditions have been detrimental to the general sentiment and financial capacity of many of the District's customers. As a result, some customers have reduced production, delayed expansion plans, and generally taken actions to preserve their investment and working capital. This was most prevalent in the meat and timber sectors. Each of these factors has contributed to the lower loan demand throughout most of the District. Future loan demand is very difficult to predict. However, it is expected to remain weak for the remainder of 2011.

Credit Quality

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

AgFirst Total Loan Portfolio Credit Quality as of:			
Classification	**March 31, 2011**	**December 31, 2010**	**March 31, 2010**
Acceptable	85.55%	85.21%	86.74%
OAEM *	11.20%	10.00%	9.50%
Substandard	3.25%	4.79%	3.76%
Doubtful	0.00%	0.00%	0.00%

* *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 lumber and 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 long period of weakness in the general economy. Improvement in these segments is dependent on general economic conditions such as employment levels and housing market activity.

Loan portfolio credit quality was also negatively impacted by lower real estate values in certain geographic areas within the Bank's chartered territory, particularly in Florida. Over the last several years, real estate values declined, population growth slowed, and housing foreclosures increased in Florida. Other areas of the District experienced a less severe reduction in real estate values although sales continue to be slow throughout.

The poultry and livestock industries returned to profitability over the last year after a period of stress. Profitability was primarily achieved through lower cost of production and reduction of oversupply which led to higher prices. Higher grain and energy costs in the livestock industry in the first quarter of 2011 have been offset by higher meat prices. The future volatility of grain prices remains a primary concern to many of these producers.

Margins remain weak for milk, chicken and ethanol producers due to increased input costs, especially high corn prices. Other major segments of the District loan portfolio continue to perform well, including sugar, citrus, and row crops. High commodity prices for grains have been very beneficial to row crop farmers. Production farm land values and sales have generally held up better than residential and investment real estate.

Conditions discussed above affect the credit quality of the Bank's participation/syndication loan portfolio directly. They also affect the credit quality of loan portfolios and earnings performance of the individual District Associations, which in turn is reflected in the quality of the Bank's Direct Notes. Although credit quality is generally stabilizing as recent positive economic signs slowly contribute to improved results for part-time farmers and those reliant on off-farm income, 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.

Direct Notes

AgFirst's primary business is to provide funding to District Associations. Each Association, in addition to the Bank, is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (FCA). AgFirst has a revolving line of credit, referred to as a Direct Note, in place with each of the District Associations. Each of the Associations funds its lending and general corporate activities primarily by borrowing under its Direct Note. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations. Each GFA contains minimum borrowing base margin, capital, and earnings requirements that must be maintained by the Association.

At March 31, 2011, total Direct Note volume outstanding was $14.201 billion, a decrease of $577.4 million, or 3.91 percent, compared to December 31, 2010. As previously mentioned, liquidation of accrued patronage, borrower payment seasonality, and the relatively weak economy were the primary reasons for the decline in Direct Note growth.

Credit quality statistics for the Direct Note portfolio are shown in the following chart:

Direct Note Credit Quality as of:			
Classification	**March 31, 2011**	**December 31, 2010**	**March 31, 2010**
Acceptable	84.27%	83.96%	86.31%
OAEM *	13.46%	11.28%	11.19%
Substandard	2.27%	4.76%	2.50%
Doubtful	0.00%	0.00%	0.00%

* *Other Assets Especially Mentioned*

As of March 31, 2011, fourteen of the twenty District Associations' Direct Notes, representing 84.27 percent of the Direct Note portfolio, were classified acceptable. Five of the remaining Direct Notes, representing 13.46 percent of the portfolio, were classified as Other Assets Especially Mentioned (OAEM) and one of the Direct Notes, representing 2.27 percent of the portfolio, was classified as substandard (adverse). The substandard classification was pursuant to a directive from the FCA.

None of the Direct Notes are considered impaired and all are performing. As of March 31, 2011, three Associations were in violation of covenants under the GFA. The Bank approved temporary waivers of the defaults and allowed these Associations to operate under special credit agreements (SCAs) pursuant to their respective GFAs.

All assets of the various Associations are pledged as collateral for their respective Direct Notes. The risk funds of an Association, including both capital and the allowance for loan losses, protect the interest of the Bank should a Direct Note default. In the opinion of management, the one Association Direct Note classified as adverse was adequately collateralized. Presently, collection of the full amount due is expected in accordance with the contractual terms of the debt arrangements. The Association has experienced unfavorable credit quality trends that negatively impacted its earnings and reflect the general economic conditions in its market. As a result, the Direct Note exhibits a moderate amount of credit weakness. At March 31, 2011, the Association had a total of approximately $400.0 million in assets, net of allowance, available to service its Direct Note outstanding, which was approximately $325.0 million.

Participations/Syndications

AgFirst maintains a participations/syndications portfolio, which consists primarily of commercial agricultural and agribusiness loans. As of March 31, 2011, the participations/syndications portfolio totaled $4.153 billion. The size of this portfolio decreased $10.7 million, or 0.26 percent, from December 31, 2010 to March 31, 2011. As with the Direct Notes, borrower demand in this portfolio is anticipated to remain flat through the remainder of 2011.

AgFirst employs a number of management techniques to limit credit risk, including underwriting standards and limits on the amounts of loans purchased from a single originator. Although the participations/syndications portfolio is comprised of a small number of relatively large loans, it is diversified both geographically and on a commodity basis. Concentration risk throughout the portfolio is mitigated through established maximum hold positions to a single borrower and to a single commodity. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

Credit quality statistics for the participations/syndications portfolio are shown in the following chart:

Participations/Syndications Credit Quality as of:			
Classification	**March 31, 2011**	**December 31, 2010**	**March 31, 2010**
Acceptable	82.98%	82.81%	83.19%
OAEM *	8.87%	10.07%	7.76%
Substandard	8.15%	7.12%	9.05%
Doubtful	0.00%	0.00%	0.00%

* *Other Assets Especially Mentioned*

Correspondent Lending

AgFirst also maintains a correspondent lending portfolio, which consists primarily of first lien residential mortgages. As of March 31, 2011, the correspondent lending portfolio totaled $2.036 billion. From December 31, 2010 to March 31, 2011, this portfolio increased $78.0 million, or 3.98 percent. The increase in volume of this portfolio continued to be influenced by refinancing activity generated by the low interest rate environment.

Essentially all loans in the correspondent lending portfolio are guaranteed by the Federal National Mortgage Association (Fannie Mae) and/or the Federal Agricultural Mortgage Corporation (Farmer Mac), thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par. At March 31, 2011, 99.77 percent of the correspondent lending portfolio was classified as Acceptable and 0.23 percent was classified as OAEM.

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 Bank at March 31, 2011, were $124.5 million compared to $115.7 million at December 31, 2010. Nonaccrual loans increased $8.8 million primarily due to $15.1 million of loan balances transferred to nonaccrual status during the three months ended March 31, 2011. Offsetting this increase were transfers to other property owned of $4.6 million, repayments of $1.2 million, and $734 thousand of charge-offs of uncollectible balances. The ten largest nonaccrual borrower relationships accounted for 71.11 percent of the total nonaccrual balance. At March 31, 2011, total nonaccrual loans were primarily classified in the forestry (30.95 percent of the total), cattle (20.32 percent), ethanol (18.89 percent), and other real estate (18.16 percent) segments. Some of these nonaccrual loans are secured by real estate, which has been negatively impacted by the current economic environment as discussed previously. Nonaccrual loans were 0.61 percent of total loans outstanding at March 31, 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 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 or rates or a compromise of 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 both the lender and the borrower. Troubled debt restructurings totaled $63.9 million at March 31, 2011 compared to $66.0 million at December 31, 2010. At March 31, 2011, troubled debt restructurings were comprised of $37.8 million of accruing restructured loans and $26.1 million of nonaccruing restructured loans. Restructured loans were primarily in the swine (51.73 percent of the total), forestry (22.95 percent) and ethanol (14.62 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 (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 $4.5 million during the first three months of 2011 and totaled $35.2 million at March 31, 2011. The decrease was due to OPO disposals of two land holdings during first quarter of 2011 which totaled $3.4 million and write-downs of OPO of $5.7 million. Write-downs during the first quarter of 2011 were comprised primarily of one land holding write-down of $4.1 million. Offsetting these decreases were transfers to OPO of $4.6 million, which is composed primarily of transfers of a vineyard and winery holding of $3.1 million and three other land holdings of $1.5 million. The largest OPO holding at March 31, 2011, which consisted of several parcels of land, was $12.6 million (35.70 percent of the total).

Allowance for Loan Losses

The Bank 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 $25.2 million at March 31, 2011, as compared with $14.9 million at December 31, 2010. The increase during the three months ended March 31, 2011 of $10.3 million was primarily due to provision expense increases of $10.9 million, offset by loan charge-offs of $733 thousand as their uncollectability became more measurable and apparent during the quarter. Charge-offs were related primarily to one borrower in the other real estate segment. The allowance at March 31, 2011 included specific reserves of $7.9 million (31.36 percent of the total) primarily related to credits for participation borrower relationships within the other real estate, cattle, and ethanol industries and $17.3 million (68.64 percent) of general reserves attributed to participation loans. The total allowance at March 31, 2011 was comprised primarily of reserves for ethanol (21.10 percent), other real estate (17.72 percent), cattle (13.66 percent), forestry (9.18 percent), and nonfarm income (8.48 percent) segments. Declining real estate values impacted charge-offs and reserves in several of these loan segments. See Note 3*, Loans and Allowance for Loan Losses,* in the Notes to the 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 March 31, 2011, AgFirst had $26.860 billion in total debt outstanding compared to $28.326 billion at December 31, 2010. In addition, other interest-bearing liabilities for AgFirst included $225.0 million in Mandatorily Redeemable Preferred Stock in both periods. Total interest-bearing liabilities decreased primarily due to the decrease in loan volume as discussed in this report which reduced funding requirements. The Bank anticipates continued access to funding through the issuance of Farm Credit System debt.

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 six months. Also, AgFirst has overnight Fed Funds lines of credit with two commercial banks.

Cash and cash equivalents, which decreased $1.012 billion from December 31, 2010 to a total of $415.3 million at March 31, 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 from a rating agency. The decrease in cash and cash equivalents was due primarily to the lesser amount of cash needed to maintain 15 days of liquidity coverage on maturing debt at March 31, 2011 compared to December 31, 2010.

Investment securities totaled $8.074 billion, or 27.65 percent of total assets at March 31, 2011, compared to $8.077 billion, or 26.24 percent, as of December 31, 2010. Investment securities decreased $2.4 million (0.03 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 $979.1 million at March 31, 2011. These held-to-maturity investments were primarily Rural Housing Mortgage-Backed Securities purchased under a Mission Related Investment pilot program approved by the FCA in 2005.

Investment securities classified as being available-for-sale totaled $7.095 billion at March 31, 2011. Available-for-sale investments at March 31, 2011 included $5.167 billion in US Government GNMA securities, $1.624 billion in Agency mortgage backed securities, $273.7 million in non-agency CMOs, and $30.8 million in asset-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 March 31, 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 March 31, 2011, AgFirst's coverage was 217 days compared to 208 days at December 31, 2010. At March 31, 2011, the Bank's cash and cash equivalents position provided 25 days coverage (Bank policy minimum is 15 days) and investment securities fully backed by the U.S. government provided an additional 192 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 217 days.

The FCA considers an asset-backed or mortgage-backed investment security ineligible if it falls below the top category (AAA/Aaa) credit rating by the Nationally Recognized Statistical Rating Organizations (NRSROs). The FCA requires System institutions to divest of such an investment unless the FCA grants specific approval to continue to hold an ineligible security. For each of the investment securities in the Bank's portfolio at March 31, 2011 rated below AAA/Aaa (total fair value of $213.8 million and amortized cost of $263.5 million), the Bank has developed and submitted plans for approval by the FCA that provide that the Bank may continue to hold the securities. The FCA has approved, with conditions, the Bank's plans for all but five investments that have recently become ineligible. The Bank has submitted plans to hold these five investments to the FCA for approval and is awaiting a response. Management is of the opinion that holding these securities will result in a higher return for the Bank than selling them in the current illiquid market. Based on the Bank's analysis, no other-than-temporary credit related impairment was recognized on these recently ineligible securities in 2011.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain Bank ineligible securities are risk weighted between 200 percent and 50 percent instead of the standard 20 percent. These ineligible securities had a fair value of $108.0 million and amortized cost of $136.0 million. 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 $60.3 million and amortized cost of $74.0 million at March 31, 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 $26.7 million at March 31, 2011, compared to a total net unrealized gain amount of $43.7 million at December 31, 2010. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The Bank 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 guarantee. Based on the results of all analyses, the Bank recognized other-than-temporary credit related impairment of $4.5 million on asset-backed securities and non-agency CMOs in its portfolio during the quarter ended March 31, 2011, which was included in Net Other-Than-Temporary Impairment Losses on Investments in the 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 $13.5 million life to date ($2.9 million in 2011), compared to total other-than-temporary credit related impairment charges life to date of $38.0 million ($2.2 million in 2011). Total other-than-temporary credit related impairment charges on non-agency CMOs have totaled $11.5 million life to date ($2.3 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 Bank 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 Bank 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.

Capital Resources

Total shareholders' equity increased $82.2 million (4.32 percent) from December 31, 2010 to a total of $1.985 billion at March 31, 2011. This increase is primarily attributed to 2011 unallocated retained earnings from net income of $102.9 million. Offsetting the increases was a reduction of $17.0 million in net unrealized gains during 2011 on investments available-for-sale, a component of AOCI, a change in the fair value of derivatives of $1.7 million, and capital stock retirements of $1.9 million.

As of March 31, 2011, AgFirst exceeded the minimum permanent capital, core surplus, total surplus, and net collateral ratio requirements established by FCA Regulations. In conjunction with the issuance of the Mandatorily Redeemable Preferred Stock, FCA requires AgFirst to maintain a minimum net collateral ratio of 104.00 percent compared to the System regulatory minimum of 103.00 percent. AgFirst reported the following regulatory ratios:

	Regulatory Minimum	3/31/11	12/31/10	3/31/10
Permanent Capital Ratio	7.00%	20.78%	21.22%	16.39%
Total Surplus Ratio	7.00%	20.75%	21.19%	16.36%
Core Surplus Ratio	3.50%	13.29%	13.79%	9.31%
Net Collateral Ratio	104.00%	107.31%	106.44%	106.34%

The Bank's permanent capital, total surplus, and core surplus ratios decreased at March 31, 2011 as compared to December 31, 2010. These ratios are calculated using three month average daily balances for both capital and assets. Patronage payments approved by the Bank's Board of Directors totaling $200.8 million were accrued on December 31, 2010, which reduced retained earnings as of that date and lowered average capital in the first quarter 2011 calculation. The temporary net gains in AOCI, as discussed above, do not affect the reported capital ratios because the effect of AOCI is excluded entirely from the risk-based capital ratios.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2011 was $102.9 million, compared to $116.6 million at March 31, 2010, a decrease of $13.7 million, or 11.75 percent. The overall decrease for the three month period is discussed below.

Key results of operations comparisons

	Annualized for the three months ended March 31, 2011	For the year ended December 31, 2010	Annualized for the three months ended March 31, 2010
Return on average assets	1.40%	1.37%	1.55%
Return on average shareholders' equity	21.29%	22.25%	28.81%
Net interest income as a percentage of average earning assets	2.03%	1.96%	1.94%
Net (charge-offs) recoveries to average loans	(0.011)%	(0.276)%	(0.190)%

Net Interest Income

Net interest income for the three months ended March 31, 2011 was $143.9 million compared to $140.4 million for the same period of 2010, an increase of $3.6 million or 2.56 percent. The net interest margin was 2.03 percent in the current year three month period, an improvement of 9 basis points over the same period of 2010. Spreads improved for several reasons, but primarily resulted from called debt being replaced by new debt issued at a lower rate of interest, decreasing funding costs. Change in net interest income due to the change in balance sheet volume was minimal as a result of decreased loan demand previously discussed. Prospectively, as assets reprice in the lower interest rate environment, spreads and margins will narrow, which can negatively affect net interest income.

The following table illustrates the changes in net interest income:

	For the three months ended March 31, 2011 vs. March 31, 2010		
	Increase (decrease) due to changes in:		
(dollars in thousands)	**Volume**	**Rate**	**Total**
Interest Income:			
Loans	$ (2,922)	$ (16,474)	$ (19,396)
Investments & Cash Equivalents	(1,439)	1,830	391
Total Interest Income	(4,361)	(14,644)	(19,005)
Interest Expense:			
Interest-Bearing Liabilities	(3,146)	(19,454)	(22,600)
Changes in Net Interest Income	$ (1,215)	$ 4,810	$ 3,595

Provision for Loan Losses

AgFirst measures risks inherent in its portfolio on an ongoing basis and as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. The net provision for loan losses was $10.9 million for the three month period ended March 31, 2011, compared to $4.4 million for the same period in 2010. Provision expense for the first quarter of 2011 primarily related to borrowers in the other real estate (34.11 percent of the provision expense total), cattle (28.74 percent), and ethanol (23.84 percent) segments.

As mentioned previously, declining real estate values were, in part, the reason for some of the provision expense recognized by the Bank. See Note 3, *Loans and Allowance for Loan Losses,* in the Notes to the 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 March 31,		
(dollars in thousands)	**2011**	**2010**	**Increase/ (Decrease)**
Loan fees	$ 3,153	$ 3,062	$ 91
Gains (losses) from other property owned, net	(5,780)	469	(6,249)
Gains (losses) on investments, net	–	1,568	(1,568)
Net impairment losses on investments	(4,458)	(6,758)	2,300
Gains (losses) on sale of rural home loans, net	(86)	(112)	26
Patronage refunds from other Farm Credit Institutions	134	308	(174)
Insurance premium refund	–	10,440	(10,440)
Other noninterest income	1,537	709	828
Total noninterest income	$ (5,500)	$ 9,686	$ (15,186)

The decrease of total net noninterest income of $15.2 million for the three months ended March 31, 2011 was due primarily to the Bank's recording $10.4 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 during the first quarter of 2011. The decrease in net noninterest income was also due to $5.8 million in write-downs of other property owned for the period ended March 31, 2011, compared to $469 thousand in gains for the period ended March 31, 2010. See discussion in *Other Property Owned* section above. Also, adding to the decrease in noninterest income were gains of $1.6 million on the sales of investment securities during the first quarter of 2010. These sales were the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio. There were no sales of investments during the first quarter of 2011. Offsetting the decreases to noninterest income was a decrease of $2.3 million in the recognition of credit related other-than-temporary impairment on several of the Bank's investment securities during the first quarter of 2011 as compared to the first quarter of 2010. See discussion of 2011 credit related other-than-temporary impairment above. Also, other noninterest income improved $828 thousand primarily due to a system captive insurance company allocated loss based on claims experience that was reflected in other noninterest income in 2010.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	**For the three months ended March 31,**		
(dollars in thousands)	**2011**	**2010**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 11,068	$ 9,845	$ 1,223
Occupancy and equipment	3,452	3,540	(88)
Insurance Fund premiums	1,364	2,706	(1,342)
Other operating expenses	4,986	5,119	(133)
Called debt expense	1,443	5,785	(4,342)
Correspondent lending servicing expense	2,265	1,945	320
Other noninterest expense	70	70	–
Total noninterest expense	$ 24,648	$ 29,010	$ (4,362)

Noninterest expense for the three months ended March 31, 2011 was $24.6 million, which reflected a decrease of $4.4 million compared to the corresponding period in 2010. The decrease of $4.4 million for the three month period was due primarily to the decrease in insurance fund premiums and called debt expense, offset by an increase in salaries and employee benefits.

Insurance Fund premiums decreased $1.3 million (49.59 percent) for the three month period due primarily to a change in the premium rate charged. The 2011 base annual premium rate is 6 basis points compared to the 10 basis points charged during the first quarter of 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 $4.3 million (75.06 percent) for the three month period as less debt was available to be called. Call options were exercised on bonds totaling $2.546 billion for the first quarter of 2011 compared to $4.729 billion for the first quarter 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.

Correspondent lending service expense increased $320 thousand (16.45 percent) for the three month period ended March 31, 2011. These increases were related primarily to increased agency guarantee fees resulting from higher volume in the correspondent lending portfolio.

The increase in salaries and employee benefits for the first quarter of 2011 is due primarily to normal salary administration and increased employee benefit costs.

Other noninterest expense consists of amortization of mandatorily redeemable preferred stock issuance costs.

REGULATORY MATTERS

The FCA entered into written supervisory agreements with two District Associations in 2010 and one additional District Association during 2011. During 2011, the FCA entered into a new written supervisory agreement with a District Association which replaced a prior agreement issued in 2010. The combined assets of these three Associations totaled less than $980.0 million at March 31, 2011. The written supervisory agreements require those 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. While the FCA has not taken any other enforcement actions against the Bank or other District Associations during 2011, three additional District Associations were subject to special supervision by the FCA at March 31, 2011, subjecting them to additional regulatory scrutiny.

On July 8, 2010, the Farm Credit Administration issued an advance notice of proposed rulemaking (ANPRM) to gather public comments on the promulgation of Tier 1 and Tier 2 capital standards for Farm Credit System institutions. The Tier 1/Tier 2 capital standards would be similar to the capital tiers delineated in the Basel Accord that other Federal financial regulatory agencies have adopted for the banking organizations they regulate. The Farm Credit Administration is seeking comments to facilitate the development of this regulatory capital framework, including new minimum risk-based and leverage ratio capital requirements that take into consideration both the System's cooperative structure of primarily wholesale banks owned by retail lender Associations that are, in turn, owned by their member borrowers, and the System's status as a GSE. The comment period for the ANPRM originally ended November 5, 2010 but it was extended through May 4, 2011.

Financial Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law on July 21, 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, many of the rules and regulations are not applicable to the System. It requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

The Dodd-Frank Act creates new regulators and expands the authority of the Federal Reserve Board over non-bank financial companies previously not subject to its or other bank regulators' direct jurisdiction, particularly those that are important to the U.S. financial system. Nevertheless, the Dodd-Frank Act largely preserves the authority of the Farm Credit Administration as the System's independent federal regulator by excluding System institutions from being considered a non-bank financial company and providing other exemptions and exclusions from certain of the law's provisions. Also, the rules prohibiting banking entities from engaging in proprietary trading under the Volcker Rule will not apply to the debt securities issued by the System.

The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions will require more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges. Margin or cash collateral will be required for these transactions. Derivative transactions that will not be subject to mandatory trading and clearing requirements may also be subject to minimum margin and capital requirements. The Dodd-Frank Act requires the Commodity Futures Trading Commission (CFTC) to consider whether to exempt System institutions from these new requirements. These requirements, whether or not System institutions are directly exempted from them, have the potential of making derivative transactions more costly and less attractive as risk management tools for System institutions. This may impact the System's funding strategies.

The Dodd-Frank Act will also require certain financial institutions to register as swap dealers or major swap participants, as applicable, with the CFTC and/or the Securities and Exchange Commission. Based on the proposed rules, it is possible that certain System institutions could be required to register with the CFTC as swap dealers based on swaps entered into between System institutions or between System institutions and their borrowers, which would subject these System institutions to considerable additional regulation and cost. In addition, the counterparties with which System institutions enter into derivative transactions for hedging and risk mitigation purposes will most likely be designated as swap dealers and, as a result, be subject to additional regulatory requirements.

As required by the Dodd-Frank Act, the U.S. Treasury and the U.S. Department of Housing and Urban Development issued in February 2011 their report to Congress entitled "Reforming America's Housing Finance Market". This report sets forth recommendations related to the future of the housing GSEs, including Fannie Mae and Freddie Mac. While this report did not specifically include or relate to the Farm Credit System, a potential risk exists that the System, as a GSE, may directly or indirectly be impacted by the decisions made as Congress addresses Fannie Mae, Freddie Mac, and federal home loan finance.

In light of the foregoing, it is difficult to predict at this time the extent of the impact which the Dodd-Frank Act or the forthcoming implementing rules and regulations will have on the System. However, it is possible they could affect funding strategies and increase funding costs.

DISTRICT MERGER ACTIVITY

Please refer to Note 9, *District Merger Activity*, in the Notes to the 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 Financial Statements, and the 2010 Annual Report of AgFirst Farm Credit Bank 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.

Balance Sheets

(dollars in thousands)	March 31, 2011 (unaudited)	December 31, 2010 (audited)
Assets		
Cash and cash equivalents	**$ 415,286**	$ 1,427,033
Investment securities:		
Available for sale (amortized cost of $7,068,526 and $6,980,661 respectively)	**7,095,270**	7,024,364
Held to maturity (fair value of $1,034,823 and $1,114,064 respectively)	**979,056**	1,052,314
Total investment securities	**8,074,326**	8,076,678
Loans	**20,397,997**	20,905,165
Less: allowance for loan losses	**25,193**	14,873
Net loans	**20,372,804**	20,890,292
Accrued interest receivable	**86,446**	84,692
Investments in other Farm Credit System institutions	**65,248**	65,300
Premises and equipment, net	**11,390**	11,361
Other property owned	**35,186**	39,719
Due from associations	**3,221**	20,550
Other assets	**136,106**	165,941
Total assets	**$ 29,200,013**	$ 30,781,566
Liabilities		
Bonds and notes	**$ 26,859,631**	$ 28,325,569
Mandatorily redeemable preferred stock	**225,000**	225,000
Accrued interest and dividends payable	**71,436**	57,816
Patronage distribution payable	**263**	190,543
Other liabilities	**58,696**	79,857
Total liabilities	**27,215,026**	28,878,785
Commitments and contingencies (Note 6)		
Shareholders' Equity		
Perpetual preferred stock	**400,000**	400,000
Capital stock and participation certificates	**415,409**	417,333
Retained earnings		
Allocated	**871**	871
Unallocated	**1,155,160**	1,052,248
Accumulated other comprehensive income	**13,547**	32,329
Total shareholders' equity	**1,984,987**	1,902,781
Total liabilities and equity	**$ 29,200,013**	$ 30,781,566

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

Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2011	2010
Interest Income		
Investment securities and other	**$ 48,971**	$ 48,580
Loans	**175,794**	195,190
Total interest income	**224,765**	243,770
Interest Expense	**80,816**	103,416
Net interest income	**143,949**	140,354
Provision for loan losses	**10,896**	4,430
Net interest income after provision for loan losses	**133,053**	135,924
Noninterest Income		
Loan fees	**3,153**	3,062
Gains (losses) from other property owned, net	**(5,780)**	469
Gains (losses) on investments, net	**—**	1,568
Total other-than-temporary impairment losses on investments (Note 2)	**(2,477)**	(1,930)
Portion of loss recognized in other comprehensive income (loss) (Note 2)	**(1,981)**	(4,828)
Net other-than-temporary impairment losses on investments	**(4,458)**	(6,758)
Gains (losses) on sale of rural home loans, net	**(86)**	(112)
Patronage refunds from other Farm Credit institutions	**134**	308
Insurance premium refund	**—**	10,440
Other noninterest income	**1,537**	709
Total noninterest income	**(5,500)**	9,686
Noninterest Expenses		
Salaries and employee benefits	**11,068**	9,845
Occupancy and equipment	**3,452**	3,540
Insurance Fund premiums	**1,364**	2,706
Other operating expenses	**4,986**	5,119
Called debt expense	**1,443**	5,785
Correspondent lending servicing expense	**2,265**	1,945
Other noninterest expense	**70**	70
Total noninterest expenses	**24,648**	29,010
Net income	**$ 102,905**	$ 116,600

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2009	$ 400,000	$ 438,707	$ 965	$ 863,862	$ (123,204)	$ 1,580,330
Comprehensive income						
Net income				116,600		116,600
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 2)					4,526	
Not other-than-temporarily impaired (Note 2)					36,385	
Total unrealized gains (losses) on investments available for sale						40,911
Employee benefit plans adjustments					95	95
Total comprehensive income						157,606
Capital stock/participation certificates issued/(retired), net		(4,851)				(4,851)
Cash patronage				(100)		(100)
Patronage distribution adjustment			(10)			(10)
Balance at March 31, 2010	$ 400,000	$ 433,856	$ 955	$ 980,362	$ (82,198)	$ 1,732,975
Balance at December 31, 2010	$ 400,000	$ 417,333	$ 871	$ 1,052,248	$ 32,329	$ 1,902,781
Comprehensive income						
Net income				**102,905**		**102,905**
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 2)					**(1,505)**	
Not other-than-temporarily impaired (Note 2)					**(15,454)**	
Total unrealized gains (losses) on investments available for sale						**(16,959)**
Employee benefit plans adjustments					**(71)**	**(71)**
Change in value of firm commitments - when issued securities (Note 8)					**(1,752)**	**(1,752)**
Total comprehensive income						**84,123**
Capital stock/participation certificates issued/(retired), net		**(1,917)**				**(1,917)**
Patronage distribution adjustment		**(7)**		**7**		**—**
Balance at March 31, 2011	**$ 400,000**	**$ 415,409**	**$ 871**	**$ 1,155,160**	**$ 13,547**	**$ 1,984,987**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2011	2010
Cash flows from operating activities:		
Net income	**$ 102,905**	$ 116,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**1,715**	2,030
Premium amortization (discount accretion) on investment securities	**7,418**	8,941
(Premium amortization) discount accretion on bonds and notes	**380**	(4,003)
Provision for loan losses	**10,896**	4,430
(Gains) losses on other property owned, net	**5,780**	(469)
Net impairment losses on investments	**4,458**	6,758
(Gains) losses on investments, net	**—**	(1,568)
(Gains) losses on sales of rural home loans, net	**86**	112
Net change in loans held for sale	**7,801**	6,278
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**(1,754)**	1,753
(Increase) decrease in due from associations	**17,329**	28,411
(Increase) decrease in other assets	**18,265**	(8,049)
Increase (decrease) in accrued interest and dividends payable	**13,620**	(736)
Increase (decrease) in other liabilities	**(21,232)**	(51,928)
Total adjustments	**64,762**	(8,040)
Net cash provided by (used in) operating activities	**167,667**	108,560
Cash flows from investing activities:		
Investment securities purchased	**(486,786)**	(592,434)
Investment securities sold or matured	**460,303**	636,301
(Increase) decrease in forward purchases - when issued securities	**(1,752)**	—
Net (increase) decrease in loans	**494,125**	662,557
(Increase) decrease in investments in other Farm Credit System institutions	**52**	11,868
Purchase of premises and equipment, net	**(1,744)**	(1,479)
Proceeds from sale of other property owned	**3,333**	6,687
Net cash provided by (used in) investing activities	**467,531**	723,500
Cash flows from financing activities:		
Bonds and notes issued	**6,458,014**	14,810,340
Bonds and notes retired	**(7,912,762)**	(15,487,473)
Capital stock and participation certificates issued/retired, net	**(1,917)**	(4,851)
Cash distribution to shareholders	**(190,280)**	(179,561)
Net cash provided by (used in) financing activities	**(1,646,945)**	(861,545)
Net increase (decrease) in cash and cash equivalents	**(1,011,747)**	(29,485)
Cash and cash equivalents, beginning of period	**1,427,033**	938,884
Cash and cash equivalents, end of period	**$ 415,286**	$ 909,399
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other property owned	**$ 4,580**	$ —
Change in unrealized gains (losses) on investments, net	**(16,959)**	40,911
Change in fair value of derivative instruments (Note 8)	**(8,493)**	—
Employee benefit plans adjustments	**71**	95
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	**$ (11,570)**	$ (1,655)
Decrease (increase) in other assets	**11,570**	1,884
Increase (decrease) in other liabilities	**—**	(229)
Supplemental information:		
Interest paid	**$ 66,816**	$ 108,155

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

Notes to the 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 financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank). AgFirst and its related twenty associations (Associations or District Associations) are collectively referred to as the District. 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. A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the Bank as of and for the year ended December 31, 2010 are contained in the 2010 Annual Report to Shareholders. These unaudited first 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 three months ended March 31, 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 Bank 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 Bank has been identified. Certain loan pools acquired from several of the District Associations are analyzed in accordance with the selling Association's allowance methodologies for assigning general and specific allowances. 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 Bank 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 Bank's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Bank 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 probability of default 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 January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The FASB noted that the effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring would be coordinated.

In April 2011, the FASB issued guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring (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. For public entities, the guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment of those receivables, an entity should apply the guidance prospectively for the first interim or annual period beginning on or after June 15, 2011. In addition, the delayed TDR disclosures referenced above are also effective for the first interim or annual period beginning on or after June 15, 2011. The impact of adoption of this guidance, if any, is expected to be immaterial to the Bank's financial condition and results of operations, but it will result in additional disclosures.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance 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 Bank's financial condition and results of operations but resulted in significant additional disclosures (see Note 3).

Effective January 1, 2010, the Bank adopted FASB guidance "Fair Value Measurements and Disclosures," 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 Bank'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:

	March 31, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. GNMA MBS/CMOs	$ 5,079,693	$ 100,870	$ (14,002)	$ 5,166,561	2.48%
U.S. Govt. Agency MBS	1,617,968	25,721	(19,482)	1,624,207	1.44
Non-Agency CMOs (a)	331,099	–	(57,403)	273,696	0.63
Asset-Backed Securities (a)	39,766	1,494	(10,454)	30,806	0.74
Total	$ 7,068,526	$ 128,085	$ (101,341)	$ 7,095,270	2.15%

	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	1,743,192	26,768	(22,570)	1,747,390	1.46
Non-Agency CMOs (b)	357,648	59	(62,181)	295,526	0.67
Asset-Backed Securities (b)	43,204	2,354	(11,121)	34,437	0.70
Total	$ 6,980,661	$ 145,558	$ (101,855)	$ 7,024,364	1.92%

(a) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of $15.2 million for Non-Agency CMOs and $8.5 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:

	March 31, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. Agency MBS	$ 839,442	$ 49,866	$ (231)	$ 889,077	5.24%
Mission Related Investments	139,614	6,910	(778)	145,746	6.15
Total	$ 979,056	$ 56,776	$ (1,009)	$ 1,034,823	5.37%

(dollars in thousands)	December 31, 2010 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%
Mission Related Investments	138,666	5,476	(1,089)	143,053	6.15
Total	$1,052,314	$ 63,087	$ (1,337)	$ 1,114,064	5.46%

A summary of the expected maturity, estimated fair value and amortized cost of investment securities at March 31, 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	$ –	– %	$ –	– %	$ 1,192	0.68 %	$ 5,165,369	2.48 %	$ 5,166,561	2.48 %
U.S. Govt. Agency MBS	–	–	19,006	4.71	42,935	0.73	1,562,266	1.42	1,624,207	1.44
Non-Agency CMOs	–	–	–	–	–	–	273,696	0.63	273,696	0.63
Asset-Backed Securities	–	–	–	–	–	–	30,806	0.74	30,806	0.74
Total fair value	$ –	– %	$ 19,006	4.71 %	$ 44,127	0.72 %	$ 7,032,137	2.15 %	$ 7,095,270	2.15 %
Total amortized cost	$ –		$ 17,823		$ 43,988		$ 7,006,715		$ 7,068,526	

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	$ –	– %	$ –	– %	$ 1,649	4.97 %	$ 837,793	5.24 %	$ 839,442	5.24 %
Mission Related Investments	–	–	25,031	6.64	31,658	6.09	82,925	6.02	139,614	6.15
Total amortized cost	$ –	– %	$ 25,031	6.64 %	$ 33,307	6.04 %	$ 920,718	5.31 %	$ 979,056	5.37 %
Total fair value	$ –		$ 26,615		$ 34,485		$ 973,723		$ 1,034,823	

Included in the available-for-sale investments are collateralized mortgage obligations (CMOs). Substantially all CMO securities have contractual maturities in excess of ten years. However, expected maturities for CMO securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

There were no sales of investment securities during the first quarter of 2011. During the first quarter of 2010, proceeds from sales of investment securities were $57.5 million and realized gains were $1.6 million.

AgFirst’s investments consist primarily of mortgage-backed securities (MBSs) and asset backed securities (ABSs). These securities are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk. These securities must meet the applicable Farm Credit Administration (FCA) regulatory guidelines, which require these securities to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, and the priority of payments of senior classes over junior classes. All ABSs have credit enhancement features including senior/subordinate structure and/or backing by a bond insurer.

The FCA considers a MBS or ABS ineligible if it falls below the AAA/Aaa credit rating criteria and requires System institutions to divest of such an investment unless the FCA grants specific approval to continue to hold an ineligible security.

The Bank's MBSs are collateralized by U.S. government or U.S. agency guaranteed residential mortgages and all were rated AAA/Aaa at March 31, 2011. Non-agency CMO securities not rated in the top category by at least one of the NRSROs at March 31, 2011 had a fair value of $192.9 million. ABSs not rated in the top category by at least one of the NRSROs at March 31, 2011 had a fair value of $20.9 million. For each of these investment securities in the Bank's portfolio rated below AAA/Aaa, the Bank has developed and submitted plans for approval by the FCA that provide that the securities may be held to maturity. The FCA has approved, with conditions, the Bank's plans for all but five investments that have recently become ineligible. The Bank has submitted a plan to hold these five investments to the FCA for approval and is awaiting a response.

The fair value of all investments at March 31, 2011 split rated AAA/Aaa or lower by the NRSROs totaled $292.7 million (amortized cost of $357.7 million). This represents approximately 3.60 percent (and 4.44 percent) of total fair value (and amortized cost) of the Bank's total investment portfolio at March 31, 2011. Split rated AAA/Aaa is defined as a security maintaining different ratings by the NRSROs with at least one NRSRO rating the security AAA/Aaa.

Mission related investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Program approved by the FCA.

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 March 31, 2011 and December 31, 2010. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	March 31, 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	$ 1,033,464	$ (9,632)	$ 299,436	$ (4,370)	$ 1,332,900	$ (14,002)
U.S. Govt. Agency MBS	257,881	(1,715)	587,435	(17,998)	845,316	(19,713)
Non-Agency CMOs	2,750	(91)	270,946	(57,312)	273,696	(57,403)
Asset-Backed Securities	–	–	27,823	(10,454)	27,823	(10,454)
Mission Related Investments	28,581	(699)	4,930	(79)	33,511	(778)
Total	$ 1,322,676	$ (12,137)	$ 1,190,570	$ (90,213)	$ 2,513,246	$ (102,350)

	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	(21,327)	846,761	(22,819)
Non-Agency CMOs	–	–	292,015	(62,180)	292,015	(62,180)
Asset-Backed Securities	–	–	30,328	(11,121)	30,328	(11,121)
Mission Related Investments	43,895	(864)	4,784	(225)	48,679	(1,089)
Total	$ 866,489	$ (4,885)	$ 1,279,733	$ (98,307)	$ 2,146,222	$ (103,192)

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, or (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Bank 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 Bank 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 Bank 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 Bank has recognized total other-than-temporary impairment during the first quarter of 2011 of $2.5 million in connection with ABS securities and non-agency CMO securities in its portfolio, which is included in Impairment Losses on Investments in the Consolidated Statements of Income.

Since the Bank 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 $2.5 million is separated into: (1) the estimated amount relating to credit loss ($4.5 million reflected in Net Income in the Statements of Income), which is partially offset by (2) the amount relating to all other factors ($2.0 million reflected in other comprehensive income in the Consolidated Statement of Changes in Shareholders' Equity).

The Bank 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 Bank 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 March 31, 2011 ranged from 2.21 percent to 53.07 percent for non-agency CMO securities and from 37.25 percent to 88.00 percent for ABS securities. Prepayment rate assumptions are based on forecasted prepayments and resulted in prepayment rates that ranged from 2.79 percent to 9.16 percent for non-agency CMO securities and from 3.40 percent to 8.16 percent for ABS securities at March 31, 2011. At March 31, 2011, the loss severity rates estimated from assumptions ranged from 5.79 percent to 65.57 percent for non-agency CMO securities and from 65.92 percent to 100.00 percent for ABS securities.

For all investments, other than the other-than-temporarily impaired securities discussed above, the Bank has not recognized any other-than-temporary impairment as the unrealized losses resulted from non-credit related factors. The Bank 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 Bank expects these securities would not be settled at a price less than their amortized cost. For the three months ended March 31, 2011, net unrealized losses of $15.5 million were recognized in other comprehensive income for not other-than-temporarily impaired available-for-sale investments.

The following schedules detail the activity related to cumulative credit losses on investments recognized in earnings as of March 31, 2011 and 2010:

(dollars in thousands)	**For the three months ended March 31, 2011**
Beginning balance at January 1, 2011	$ 44,791
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	2,994
Reductions for increases in expected cash flows	(352)
Ending balance at March 31, 2011	$ 48,896

(dollars in thousands)	**For the three months ended March 31, 2010**
Beginning balance at January 1, 2010	$ 33,159
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	6,537
Ending balance at March 31, 2010	$ 39,917

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

For a complete description of the Bank'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 Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank 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 at March 31, 2011 and December 31, 2010, follows:

(dollars in thousands)	March 31, 2011	December 31, 2010
Direct notes	$ 14,201,019	$ 14,778,448
Real estate mortgage	1,343,747	1,401,285
Production and intermediate-term	1,411,448	1,486,639
Agribusiness		
Loans to cooperatives	303,120	162,167
Processing and marketing	681,790	712,171
Farm-related business	70,824	61,801
Total agribusiness	1,055,734	936,139
Communication	121,513	113,021
Energy	289,665	296,213
Water and waste disposal	28,000	28,000
Rural residential real estate	1,911,407	1,831,928
Lease receivables	5,369	6,331
Loans to other financial institutions (OFIs)	8,000	5,000
Other (including mission-related)	22,095	22,161
Total Loans	$ 20,397,997	$ 20,905,165

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations (Direct Notes). These notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly, which further mitigates credit risk to the Bank.

The Bank 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 the changes in the principal balance of participations purchased and sold for the quarter ended March 31, 2011:

	Beginning Balance at December 31, 2010							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,215,653	$ 33,245	$ 94,208	$ 25,581	$ 27,907	$ –	$ 1,337,768	$ 58,826
Production and intermediate-term	1,618,738	252,700	219,653	312,263	217,047	–	2,055,438	564,963
Agribusiness								
Loans to cooperatives	14,183	46,352	174,689	8,438	28,798	–	217,670	54,790
Processing and marketing	168,277	337,988	370,508	79,608	634,583	28,599	1,173,368	446,195
Farm-related business	41,374	10,580	27,764	5,866	9,523	–	78,661	16,446
Total agribusiness	223,834	394,920	572,961	93,912	672,904	28,599	1,469,699	517,431
Communication	–	30,579	149,082	4,796	–	–	149,082	35,375
Energy	245	18,805	298,508	4,765	22,434	–	321,187	23,570
Water and waste disposal	–	–	28,000	–	–	–	28,000	–
Lease receivables	6,331	–	–	–	–	–	6,331	–
Loans to OFIs	–	–	–	–	5,000	–	5,000	–
Other (including mission-related)	22,364	–	–	–	–	–	22,364	–
Total	$ 3,087,165	$ 730,249	$ 1,362,412	$ 441,317	$ 945,292	$ 28,599	$ 5,394,869	$ 1,200,165

	Purchases and sales for the quarter ended March 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	–	–	–	–	–	–	–	–
Agribusiness								
Loans to cooperatives	–	–	–	–	–	–	–	–
Processing and marketing	–	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–	–
Total agribusiness	–	–	–	–	–	–	–	–
Communication	–	–	–	–	–	–	–	–
Energy	–	–	–	–	–	–	–	–
Water and waste disposal	–	–	–	–	–	–	–	–
Lease receivables	–	–	–	–	–	–	–	–
Loans to OFIs	–	–	–	–	–	–	–	–
Other (including mission-related)	–	–	–	–	–	–	–	–
Total	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –

	Other activity for the quarter ended March 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ (24,249)	$ (2,016)	$ (562)	$ 22,579	$ (9,619)	$ –	$ (34,430)	$ 20,563
Production and intermediate-term	(196,484)	(14,964)	9,601	(56,462)	40,197	–	(146,686)	(71,426)
Agribusiness								
Loans to cooperatives	(3,102)	29,411	177,838	436	(3,898)	–	170,838	29,847
Processing and marketing	34,279	(34,527)	(20,292)	3,889	(57,427)	4,578	(43,440)	(26,060)
Farm-related business	1,712	2,135	8,834	(520)	86	–	10,632	1,615
Total agribusiness	32,889	(2,981)	166,380	3,805	(61,239)	4,578	138,030	5,402
Communication	–	(608)	7,948	47	–	–	7,948	(561)
Energy	–	189	(4,171)	77	(2,213)	–	(6,384)	266
Water and waste disposal	–	–	–	–	–	–	–	–
Lease receivables	(962)	–	–	–	–	–	(962)	–
Loans to OFIs	–	–	–	–	3,000	–	3,000	–
Other (including mission-related)	(68)	–	–	–	–	–	(68)	–
Total	$ (188,874)	$ (20,380)	$ 179,196	$ (29,954)	$ (29,874)	$ 4,578	$ (39,552)	$ (45,756)

	Ending balance at March 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,191,404	$ 31,229	$ 93,646	$ 48,160	$ 18,288	$ –	$ 1,303,338	$ 79,389
Production and intermediate-term	1,422,254	237,736	229,254	255,801	257,244	–	1,908,752	493,537
Agribusiness								
Loans to cooperatives	11,081	75,763	352,527	8,874	24,900	–	388,508	84,637
Processing and marketing	202,556	303,461	350,216	83,497	577,156	33,177	1,129,928	420,135
Farm-related business	43,086	12,715	36,598	5,346	9,609	–	89,293	18,061
Total agribusiness	256,723	391,939	739,341	97,717	611,665	33,177	1,607,729	522,833
Communication	–	29,971	157,030	4,843	–	–	157,030	34,814
Energy	245	18,994	294,337	4,842	20,221	–	314,803	23,836
Water and waste disposal	–	–	28,000	–	–	–	28,000	–
Lease receivables	5,369	–	–	–	–	–	5,369	–
Loans to OFIs	–	–	–	–	8,000	–	8,000	–
Other (including mission-related)	22,296	–	–	–	–	–	22,296	–
Total	$ 2,898,291	$ 709,869	$ 1,541,608	$ 411,363	$ 915,418	$ 33,177	$ 5,355,317	$ 1,154,409

Purchases and sales represent new participation contracts or major modifications of existing contracts. Other activity may consist of advances on existing participation contracts, payments, charge-offs, recoveries, and/or classification changes.

A significant source of liquidity for the Bank is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at March 31, 2011 and indicates that approximately 12.66 percent of loans had maturities of one year or less:

(dollars in thousands)	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Direct notes	$ 1,712,078	$ 4,860,815	$ 7,628,126	$ 14,201,019
Real estate mortgage	202,977	379,526	761,244	1,343,747
Production and intermediate-term	398,908	632,815	379,725	1,411,448
Agribusiness				
Loans to cooperatives	126,985	132,144	43,991	303,120
Processing and marketing	89,205	440,125	152,460	681,790
Farm-related business	25,128	28,779	16,917	70,824
Total agribusiness	241,318	601,048	213,368	1,055,734
Communication	(46)	101,148	20,411	121,513
Energy	21,822	110,483	157,360	289,665
Water and waste disposal	–	–	28,000	28,000
Rural residential real estate	–	2,708	1,908,699	1,911,407
Lease receivables	5,369	–	–	5,369
Loans to OFIs	–	8,000	–	8,000
Other (including mission-related)	(51)	–	22,146	22,095
Total Loans	$ 2,582,375	$ 6,696,543	$ 11,119,079	$ 20,397,997

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 March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Direct notes:		
Acceptable	84.27%	83.96%
OAEM	13.46	11.28
Substandard/doubtful/loss*	2.27	4.76
	100.00%	100.00%
Real estate mortgage:		
Acceptable	81.61%	82.93%
OAEM	9.12	8.28
Substandard/doubtful/loss	9.27	8.79
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	79.45%	79.49%
OAEM	12.48	14.46
Substandard/doubtful/loss	8.07	6.05
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	96.20%	95.12%
OAEM	3.80	4.88
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	77.83%	78.10%
OAEM	8.83	11.48
Substandard/doubtful/loss	13.34	10.42
	100.00%	100.00%
Farm-related business:		
Acceptable	99.02%	99.42%
OAEM	0.98	0.58
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total agribusiness:		
Acceptable	84.52%	82.46%
OAEM	6.86	9.61
Substandard/doubtful/loss	8.62	7.93
	100.00%	100.00%

	March 31, 2011	December 31, 2010
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	97.93%	97.94%
OAEM	0.79	0.80
Substandard/doubtful/loss	1.28	1.26
	100.00%	100.00%
Rural residential real estate:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	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	73.92%	73.93%
OAEM	1.19	1.41
Substandard/doubtful/loss	24.89	24.66
	100.00%	100.00%
Total Loans:		
Acceptable	85.55%	85.21%
OAEM	11.20	10.00
Substandard/doubtful/loss	3.25	4.79
	100.00%	100.00%

**Certain Direct Notes were classified substandard pursuant to directives from the FCA which regulates the Bank and the District Associations. For further discussion, see Direct Notes section of Management's Discussion & Analysis of Financial Condition & Results of Operations.*

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

(dollars in thousands)	March 31, 2011 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
Direct notes	$ –	$ –	$ –	$ 14,236,299	$ 14,236,299	$ –
Real estate mortgage	5,251	72,361	77,612	1,276,068	1,353,680	7,925
Production and intermediate-term	2,247	14,500	16,747	1,402,850	1,419,597	–
Agribusiness						
Loans to cooperatives	–	–	–	304,427	304,427	–
Processing and marketing	9	1,339	1,348	683,790	685,138	–
Farm-related business	–	–	–	71,015	71,015	–
Total agribusiness	9	1,339	1,348	1,059,232	1,060,580	–
Communication	–	–	–	121,755	121,755	–
Energy and water/waste disposal	–	–	–	320,012	320,012	–
Rural residential real estate	28,439	1,772	30,211	1,887,786	1,917,997	1,772
Lease receivables	–	–	–	5,399	5,399	–
Loans to OFIs	–	–	–	8,011	8,011	–
Other (including mission-related)	–	98	98	22,292	22,390	–
Total	$ 35,946	$ 90,070	$ 126,016	$ 20,339,704	$ 20,465,720	$ 9,697

(dollars in thousands)	December 31, 2010 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
Direct notes	$ –	$ –	$ –	$ 14,814,929	$ 14,814,929	$ –
Real estate mortgage	5,488	63,507	68,995	1,341,963	1,410,958	686
Production and intermediate-term	260	16,807	17,067	1,477,746	1,494,813	–
Agribusiness						
Loans to cooperatives	–	–	–	162,885	162,885	–
Processing and marketing	9	97	106	714,297	714,403	–
Farm-related business	–	–	–	61,960	61,960	–
Total agribusiness	9	97	106	939,142	939,248	–
Communication	–	–	–	113,221	113,221	–
Energy and water/waste disposal	–	–	–	326,091	326,091	–
Rural residential real estate	36,734	5,889	42,623	1,795,675	1,838,298	5,889
Lease receivables	–	–	–	6,378	6,378	–
Loans to OFIs	–	–	–	5,008	5,008	–
Other (including mission-related)	–	65	65	22,278	22,343	–
Total	$ 42,491	$ 86,365	$ 128,856	$ 20,842,431	$ 20,971,287	$ 6,575

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 March 31, 2011 and December 31, 2010 are summarized as follows:

(dollars in thousands)	March 31, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	$ 77,626	$ 74,838
Production and intermediate-term	31,666	35,002
Agribusiness		
Processing and marketing	13,103	3,825
Farm-related business	–	–
Total agribusiness	13,103	3,825
Rural residential real estate	522	509
Other (including mission-related)	1,552	1,546
Total nonaccrual loans	$ 124,469	$ 115,720
Accruing restructured loans:		
Real estate mortgage	$ 4,763	$ 5,010
Production and intermediate-term	–	9,610
Agribusiness		
Processing and marketing	33,044	30,683
Farm-related business	–	–
Total agribusiness	33,044	30,683
Rural residential real estate	–	–
Other (including mission-related)	–	–
Total accruing restructured loans	$ 37,807	$ 45,303
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 7,925	$ 686
Production and intermediate-term	–	–
Agribusiness		
Processing and marketing	–	–
Farm-related business	–	–
Total agribusiness	–	–
Rural residential real estate	1,772	5,889
Other (including mission-related)	–	–
Total accruing loans 90 days or more past due	$ 9,697	$ 6,575
Total nonperforming loans	$ 171,973	$ 167,598
Other property owned	35,186	39,719
Total nonperforming assets	$ 207,159	$ 207,317
Nonaccrual loans as a percentage of total loans	0.61%	0.55%
Nonperforming assets as a percentage of total loans and other property owned	1.01%	0.99%
Nonperforming assets as a percentage of capital	10.44%	10.90%

The following table presents information relating to impaired loans (including accrued interest) at March 31, 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)	March 31, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	$ 42,932	$ 33,894
Past due	81,537	81,826
Total impaired nonaccrual loans	124,469	115,720
Impaired accrual loans:		
Restructured	37,807	45,303
90 days or more past due	9,697	6,575
Total impaired accrual loans	47,504	51,878
Total impaired loans	$ 171,973	$ 167,598

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

	March 31, 2011			Quarter Ended March 31, 2011	
(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	$ 11,090	$ 10,767	$ 2,083	$ 11,353	$ –
Production and intermediate-term	19,582	14,822	2,269	15,429	–
Agribusiness					
Processing and marketing	9,539	13,613	2,900	9,532	–
Total agribusiness	9,539	13,613	2,900	9,532	–
Rural residential real estate	–	–	–	–	–
Other (including mission-related)	1,546	1,552	650	1,546	–
Total	$ 41,757	$ 40,754	$ 7,902	$ 37,860	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 79,224	$ 123,181	$ –	$ 68,088	$ 188
Production and intermediate-term	12,084	22,925	–	15,576	(4)
Agribusiness					
Processing and marketing	36,608	37,715	–	34,719	480
Total agribusiness	36,608	37,715	–	34,719	480
Rural residential real estate	2,294	2,294	–	3,901	8
Other	6	(6)	–	(122)	–
Total	$ 130,216	$ 186,109	$ –	$ 122,162	$ 672
Total impaired loans:					
Real estate mortgage	$ 90,314	$ 133,948	$ 2,083	$ 79,441	$ 188
Production and intermediate-term	31,666	37,747	2,269	31,005	(4)
Agribusiness					
Processing and marketing	46,147	51,328	2,900	44,251	480
Total agribusiness	46,147	51,328	2,900	44,251	480
Rural residential real estate	2,294	2,294	–	3,901	8
Other (including mission-related)	1,552	1,546	650	1,424	–
Total	$ 171,973	$ 226,863	$ 7,902	$ 160,022	$ 672

(dollars in thousands)	December 31, 2010 Recorded Investment	December 31, 2010 Unpaid Principal Balance	December 31, 2010 Related Allowance	Year Ended December 31, 2010 Average Impaired Loans	Year Ended December 31, 2010 Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 8,687	$ 8,959	$ 1,788	$ 23,982	$ –
Production and intermediate-term	14,822	52,326	2,129	15,266	462
Agribusiness					
Processing and marketing	–	–	–	–	–
Total agribusiness	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Other (including mission-related)	1,546	1,546	600	1,454	–
Total	$ 25,055	$ 62,831	$ 4,517	$ 40,702	$ 462
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 71,848	$ 123,223	$ –	$ 104,189	$ 606
Production and intermediate-term	29,790	2,803	–	55,141	1,658
Agribusiness					
Processing and marketing	34,508	40,809	–	46,317	3,194
Total agribusiness	34,508	40,809	–	46,317	3,194
Rural residential real estate	6,397	6,397	–	6,000	129
Other	–	–	–	84	–
Total	$ 142,543	$ 173,232	$ –	$ 211,731	$ 5,587
Total impaired loans:					
Real estate mortgage	$ 80,535	$ 132,182	$ 1,788	$ 128,171	$ 606
Production and intermediate-term	44,612	55,129	2,129	70,407	2,120
Agribusiness					
Processing and marketing	34,508	40,809	–	46,317	3,194
Total agribusiness	34,508	40,809	–	46,317	3,194
Rural residential real estate	6,397	6,397	–	6,000	129
Other (including mission-related)	1,546	1,546	600	1,538	–
Total	$ 167,598	$ 236,063	$ 4,517	$ 252,433	$ 6,049

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 March 31, 2011 and December 31, 2010.

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans for the quarters ended March 31, 2011 and March 31, 2010:

(dollars in thousands)	March 31, 2011	March 31, 2010
Interest income which would have been recognized under the original loan terms	$ 3,487	$ 3,662
Less: interest income recognized	586	471
Foregone interest income	$ 2,901	$ 3,191

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

(dollars in thousands)	**Direct Note**	**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, 2010	$ –	$ 4,836	$ 5,938	$ 2,722	$ 69	$ 307	$ –	$ –	$ 1,001	$ 14,873
Charge-offs	–	(170)	(514)	(49)	–	–	–	–	–	(733)
Recoveries	–	157	–	–	–	–	–	–	–	157
Provision for loan losses	–	7,476	733	2,624	25	(31)	–	–	69	10,896
Balance at March 31, 2011	$ –	$ 12,299	$ 6,157	$ 5,297	$ 94	$ 276	$ –	$ –	$ 1,070	$ 25,193
March 31, 2011 allowance ending balance:										
Loans individually-evaluated for impairment	$ –	$ 2,083	$ 2,269	$ 2,900	$ –	$ –	$ –	$ –	$ 650	$ 7,902
Loans collectively-evaluated for impairment	$ –	$ 10,216	$ 3,888	$ 2,397	$ 94	$ 276	$ –	$ –	$ 420	$ 17,291
Recorded investment in loans outstanding:										
Ending Balance at March 31, 2011	$ 14,236,299	$ 1,353,680	$ 1,419,597	$ 1,060,580	$ 121,755	$ 320,012	$ 1,917,997	$ 5,399	$ 30,401	$ 20,465,720
March 31, 2011 recorded investment ending balance:										
Loans individually-evaluated for impairment	$ 14,236,299	$ 263,774	$ 358,103	$ 378,231	$ –	$ 85,409	$ 1,917,997	$ 5,355	$ 10,237	$ 17,255,405
Loans collectively-evaluated for impairment	$ –	$ 1,089,906	$ 1,061,494	$ 682,349	$ 121,755	$ 234,603	$ –	$ 44	$ 20,164	$ 3,210,315

(dollars in thousands)	**Direct Note**	**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	$ –	$ 11,583	$ 11,606	$ 8,286	$ 72	$ 274	$ 12	$ –	$ 459	$ 32,292
Charge-offs	–	(42,430)	(8,590)	(7,379)	–	–	–	–	–	(58,399)
Recoveries	–	799	19	160	–	–	–	–	–	978
Provision for loan losses	–	34,884	2,903	1,655	(3)	33	(12)	–	542	40,002
Balance at December 31, 2010	$ –	$ 4,836	$ 5,938	$ 2,722	$ 69	$ 307	$ –	$ –	$ 1,001	$ 14,873
December 31, 2010 allowance ending balance:										
Loans individually evaluated for impairment	$ –	$ 1,788	$ 2,129	$ –	$ –	$ –	$ –	$ –	$ 600	$ 4,517
Loans collectively evaluated for impairment	$ –	$ 3,048	$ 3,809	$ 2,722	$ 69	$ 307	$ –	$ –	$ 401	$ 10,356
Recorded investment in loans outstanding:										
Ending Balance at December 31, 2010	$ 14,814,929	$ 1,410,958	$ 1,494,813	$ 939,248	$ 113,221	$ 326,091	$ 1,838,298	$ 6,378	$ 27,351	$ 20,971,287
December 31, 2010 recorded investment ending balance:										
Loans individually evaluated for impairment	$ 14,814,929	$ 243,593	$ 325,708	$ 257,290	$ –	$ 79,917	$ 1,838,298	$ 6,348	$ 10,190	$ 17,576,273
Loans collectively evaluated for impairment	$ –	$ 1,167,365	$ 1,169,105	$ 681,958	$ 113,221	$ 246,174	$ –	$ 30	$ 17,161	$ 3,395,014

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 Bank, 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 Bank'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 March 31, 2011 and December 31, 2010 for each of the fair value hierarchy levels:

	March 31, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	$ –	$ 5,166,561	$ –	$ 5,166,561
U.S. Govt. Agency MBS	–	1,624,207	–	1,624,207
Non-Agency CMOs	–	–	273,696	273,696
Asset-backed securities	–	–	30,806	30,806
Total investments available-for-sale	–	6,790,768	304,502	7,095,270
Commercial paper, bankers' acceptances, CD's & others	–	53,688	–	53,688
Federal funds sold, securities purchased under resale agreements, and other	–	4,545	–	4,545
Interest rate swaps and other financial instruments	–	51,138	–	51,138
Assets held in trust funds	3,517	–	–	3,517
Total Assets	$ 3,517	$ 6,900,139	$ 304,502	$ 7,208,158
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ 749	$ –	$ 749
Collateral liabilities	–	16,885	–	16,885
Standby letters of credit	–	–	2,373	2,373
Total Liabilities	$ –	$ 17,634	$ 2,373	$ 20,007

	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	–	1,747,390	–	1,747,390
Non-Agency CMOs	–	–	295,526	295,526
Asset-backed securities	–	–	34,437	34,437
Total investments available-for-sale	–	6,694,401	329,963	7,024,364
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	2,983	–	–	2,983
Total Assets	$ 2,983	$ 6,817,390	$ 329,963	$ 7,150,336
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ 8,781	$ –	$ 8,781
Collateral liabilities	–	18,315	–	18,315
Standby letters of credit	–	–	1,263	1,263
Total Liabilities	$ –	$ 27,096	$ 1,263	$ 28,359

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2011 and 2010. The Bank had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first three 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	$ 1,263
Total gains or (losses) realized/unrealized:			
Included in earnings	(2,151)	(2,307)	–
Included in other comprehensive income (loss)	(193)	4,719	–
Purchases	–	–	–
Sales	–	–	–
Issuances	–	–	1,110
Settlements	(1,287)	(24,242)	(160)
Transfers in and/or out of level 3	–	–	–
Balance at March 31, 2011	$ 30,806	$ 273,696	$ 2,373

(dollars in thousands)	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2010	$ 47,465	$ 360,027	$ 2,461
Total gains or (losses) realized/unrealized:			
Included in earnings	(4,801)	(1,957)	–
Included in other comprehensive income (loss)	2,697	7,570	–
Purchases, sales, issuances and settlements, net	(5,402)	(22,034)	(271)
Transfers in and/or out of level 3	–	–	–
Balance at March 31, 2010	$ 39,959	343,606	2,190

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 March 31, 2011 and December 31, 2010 for each of the fair value hierarchy values are summarized below:

	March 31, 2011				
(dollars in thousands)	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 14,812	$ 14,812	$ (3,961)
Other property owned	–	–	15,319	15,319	(5,578)

	December 31, 2010				
(dollars in thousands)	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 20,538	$ 20,538	$ (40,232)
Other property owned	–	–	40,269	40,269	(5,526)

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Bank's financial instruments at March 31, 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.

	March 31, 2011		December 31, 2010	
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Loans, net of allowance	$ 20,440,527	$ 20,526,730	$ 20,956,414	$ 21,073,358
Derivative assets	51,138	51,138	62,245	62,245
Cash and cash equivalents	415,286	415,286	1,427,033	1,427,033
Investment securities	8,093,050	8,130,093	8,095,248	8,138,428
Assets held in trust funds	3,517	3,517	2,983	2,983
Financial liabilities:				
Systemwide Debt Securities	$ 26,935,878	$ 26,811,584	$ 28,382,546	$ 28,284,708
Derivative liabilities	749	749	8,781	8,781

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

A. **Loans:** Because no active market exists for the Bank's loans, fair value is estimated by discounting the expected future cash flows using the Bank'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. **Systemwide Debt Securities:** 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.

E. **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.

F. **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 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 Farm Credit System banks. The bonds and notes of the System totaled $189.641 billion at March 31, 2011.

There are no material claims pending against the Bank in which money damages are asserted.

NOTE 7 — EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31,	
(dollars in thousands)	**2011**	**2010**
Pension	$ 2,431	$ 2,264
401k	279	224
Other postretirement benefits	295	247
Total	$ 3,005	$ 2,735

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

(dollars in thousands)	**Actual YTD Through 3/31/11**	**Projected Contributions for Remainder of 2011**	**Projected Total Contributions 2011**
Pensions	$ 73	$ 7,424	$ 7,497
Other postretirement benefits	234	845	1,079
Total	$ 307	$ 8,269	$ 8,576

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Bank 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 Bank'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 Bank 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 Bank 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. The Bank 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 Bank's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The Bank 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 Bank may enter into derivatives, particularly interest rate swaps, to lower funding costs, to allow it to diversify sources of funding, or to alter interest rate exposures arising from mismatches between assets and liabilities. As mentioned previously, interest rate swaps enable the Bank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the Bank if floating rate borrowings were made directly. Under interest rate swap arrangements, the Bank 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 Bank 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.

The primary type of derivative instrument used and the amount of activity for the three months ended March 31, 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	–	243
Maturities/amortization	(100)	(445)
Terminations	–	–
Balance at end of period	$ 1,035	$ 243

By using derivative instruments, the Bank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank'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 Bank, thus creating a repayment risk for the Bank. When the fair value of the derivative contract is negative, the Bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the Bank 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 March 31, 2011 of $50.7 million was with six counterparties and represented approximately 4.90 percent of the total notional amount of interest rate swaps. The Bank held $16.9 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The Bank 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 Bank held $18.3 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank 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 Bank had not posted collateral with respect to any of these arrangements.

The Bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of the Bank'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 Bank's overall interest rate risk-management strategies.

Fair-Value Hedges

For derivative instruments designated as a 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 gain on interest rate swaps recognized in interest expense for the three months ended March 31, 2011 was $11.1 million, while the amount of the loss on the Systemwide Debt Securities was ($11.1) million. The amount of the gain on interest rate swaps recognized in interest expense for the three months ended March 31, 2010 was $1.9 million, while the amount of the loss on the Systemwide Debt Securities was ($1.9) 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

At March 31, 2011 and December 31, 2010, the Bank had committed to purchase $242.9 million and $444.5 million, respectively, of when-issued GNMA securities. The securities were contracted to settle 30 or more days into the future. These commitments to purchase are considered derivatives (cash flow hedges) in the form of forward contracts. The market value of the March 31, 2011 securities was $242.6 million, a net $289 thousand decline. The December 31, 2010 securities market value was $435.7 million, a net $8.8 million decline.

These changes in market value represent the effective portion of the Bank's forward contracts. They are included in Other Comprehensive Income (OCI), and Other Liabilities or Other Assets as appropriate, as firm commitments in the Bank's Consolidated Balance Sheet at period end.

For derivative instruments that are designated and qualify as a cash flow hedge, such as the Bank'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 March 31, 2011 and December 31, 2010:

(dollars in thousands)	**Balance Sheet Classification – Assets**	**3/31/11 Fair Value**	**Balance Sheet Classification - Liabilities**	**3/31/11 Fair Value**
Derivatives designated as hedging instruments :				
Receive-fixed swaps	Other Assets	$ 50,676	Other Liabilities	$ –
Forward contracts	Other Assets	462	Other Liabilities	749
Total		$ 51,138		$ 749

(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 tables set forth the amount of net gain (loss) recognized in the Consolidated Statement of Income for the three months ended March 31, 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	$ –	$ –
Total		$ –	$ –

(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	$ (1,969)	$ (8,751)	Interest Income	$ (214)	$ –	Interest Income	$ –	$ –

NOTE 9 – 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 $243 million at March 31, 2011. 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.

NOTE 10 – SUBSEQUENT EVENTS

The Bank has evaluated subsequent events and has determined there are none requiring disclosure through May 9, 2011, which is the date the financial statements were issued.