Post Audit
Committee Draft

AgFirst Farm Credit Bank

Quarterly Report

Third Quarter 2011

THIRD QUARTER 2011

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CERTIFICATION

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

M. Wayne Lambertson
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

Charl L. Butler
Chief Financial Officer

November 7, 2011

Report on Internal Control Over Financial Reporting

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 September 30, 2011. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

F. A. Lowrey

F.A. Lowrey
Chief Executive Officer

Charl L. Butler

Charl L. Butler
Chief Financial Officer

November 7, 2011

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three and nine month periods ended September 30, 2011. These comments should be read in conjunction with the accompanying financial statements, the Notes to the 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, neither the three months nor the nine months results of operations may be indicative of an entire year due to the seasonal nature of a portion of AgFirst's business.

FORWARD-LOOKING INFORMATION

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

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

FINANCIAL CONDITION

Loan Portfolio

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)*	**September 30, 2011**		**December 31, 2010**		**September 30, 2010**	
Direct Notes	$ 14,472,607	70.84%	$ 14,778,448	70.69%	$ 14,722,011	70.51%
Participations/Syndications purchased, net	3,821,669	18.71	4,163,794	19.92	4,260,489	20.41
Correspondent Lending	2,122,011	10.39	1,957,923	9.37	1,882,395	9.01
Loans to OFIs	12,250	0.06	5,000	0.02	14,000	0.07
Total	$ 20,428,537	100.00%	$ 20,905,165	100.00%	$ 20,878,895	100.00%

Total loans outstanding were $20.429 billion at September 30, 2011, a decrease of $476.6 million, or 2.28 percent, compared to total loans outstanding at December 31, 2010. The decline in total loans outstanding since 2010 year end was partially due to Bank patronage payments to Associations of approximately $188.3 million in January 2011 and $10.0 million in June 2011, which were applied to the Association Direct Notes. The resolution of adversely classified loans has impacted loan volume as loans are charged down to their fair value when transitioned to nonaccrual status, liquidated through voluntary or foreclosure sales, or moved to other property owned. New loan demand remains weak due to the continued relative weakness and uncertainty in the general economy. Future loan demand is very difficult to predict. However, it is expected to remain weak through 2012.

Credit Quality

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

AgFirst Total Loan Portfolio Credit Quality as of:			
Classification	**September 30, 2011**	**December 31, 2010**	**September 30, 2010**
Acceptable	86.67%	85.21%	87.61%
OAEM *	9.75%	10.00%	10.82%
Substandard	3.58%	4.79%	1.57%
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 building products, timber, sawmills, landscape nurseries, and sod operations remain stressed. Also, many customers in the District rely on off-farm income, which has been negatively impacted by the weakness in the general economy. Improvement in these segments is dependent on such general economic factors as employment levels and housing market activity.

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

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

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

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

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

Direct Notes

AgFirst's primary business is to provide funding, operational support, and technology services 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 September 30, 2011, the total principal amount outstanding under Direct Notes was $14.473 billion, a decrease of $305.8 million, or 2.07 percent, compared to December 31, 2010. As previously mentioned, Bank patronage payments, problem asset resolution, and the relatively weak economy were the primary reasons for the decline in Direct Note volume.

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

Direct Note Credit Quality as of:			
Classification	**September 30, 2011**	**December 31, 2010**	**September 30, 2010**
Acceptable	85.73%	83.96%	87.54%
OAEM *	11.21%	11.28%	12.46%
Substandard	3.06%	4.76%	0.00%
Doubtful	0.00%	0.00%	0.00%

**Other Assets Especially Mentioned*

As of September 30, 2011, five 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. None of the Direct Notes, including those classified as substandard (adverse), are considered impaired. 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, all Association Direct Notes are adequately collateralized. Presently, collections of the full amounts due are expected in accordance with the contractual terms of the debt arrangements.

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

Participations/Syndications

AgFirst maintains a participations/syndications portfolio, which consists primarily of commercial agricultural and agribusiness loans. As of September 30, 2011, the participations/syndications portfolio totaled $3.822 billion. The size of this portfolio decreased $342.1 million, or 8.22 percent, from December 31, 2010 to September 30, 2011. As with the Direct Notes, problem asset resolution and the relatively weak economy were the primary reasons for the decline in volume.

AgFirst employs a number of management techniques to limit credit risk, including underwriting standards, limits on the amounts of loans purchased from a single originator, and maximum hold positions to a single borrower and commodity. 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. 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	**September 30, 2011**	**December 31, 2010**	**September 30, 2010**
Acceptable	82.90%	82.81%	82.48%
OAEM *	9.60%	10.07%	9.88%
Substandard	7.49%	7.12%	7.64%
Doubtful	0.01%	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 September 30, 2011, the correspondent lending portfolio totaled $2.122 billion. From December 31, 2010 to September 30, 2011, this portfolio increased $164.1 million, or 8.38 percent. The increase in volume of this portfolio continued to be influenced by the net addition of borrowers due to refinancing activity resulting from 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 September 30, 2011, 99.90 percent of the correspondent lending portfolio was classified as Acceptable and 0.10 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 September 30, 2011, were $154.7 million compared to $115.7 million at December 31, 2010. Nonaccrual loans increased $39.0 million primarily due to $115.7 million of loan balances transferred to nonaccrual status during the nine months ended September 30, 2011. Offsetting this increase were charge-offs of uncollectible balances of $45.5 million, repayments of $20.1 million, transfers to other property owned of $7.0 million, and reinstatements to accrual status of $5.9 million. The ten largest nonaccrual borrower relationships accounted for 64.86 percent of the total nonaccrual balance. At September 30, 2011, total nonaccrual loans were primarily in the forestry (30.27 percent of the total), processing, primarily chicken (24.35 percent), cattle (16.20 percent) and other real estate (14.61 percent) segments. The repayment of a number of these nonaccrual loans in the forestry, cattle, and other real estate categories was dependent on the sale of real estate collateral, the value of which has been negatively impacted by the current economic environment as discussed previously. Nonaccrual loans were 0.76 percent of total loans outstanding at September 30, 2011.

Troubled Debt Restructurings

A troubled debt restructuring occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. Troubled debt restructurings totaled $75.1 million at September 30, 2011 compared to $66.0 million at December 31, 2010. At September 30, 2011, troubled debt restructurings were comprised of $39.2 million of accruing restructured loans and $35.9 million of nonaccruing restructured loans. Restructured loans were primarily in the swine (35.91 percent of the total), processing, primarily chicken (25.30 percent), and forestry (19.83 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 $15.8 million during the first nine months of 2011 and totaled $23.9 million at September 30, 2011. The decrease was due primarily to OPO disposals of $13.5 million and OPO write-downs of $9.2 million. Disposals primarily included three land holdings totaling $9.0 million and a vineyard and winery holding of $2.4 million. Write-downs were comprised primarily of two land holdings totaling $5.6 million. Offsetting these decreases were transfers to OPO of $7.0 million, which were comprised primarily of a vineyard and winery holding of $3.1 million, a tree farm of $1.0 million, and several land holdings totaling an additional $2.9 million. The largest OPO holding at September 30, 2011, which consisted of several parcels of land, was $12.5 million (52.32 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 $28.1 million at September 30, 2011, as compared with $14.9 million at December 31, 2010. The $13.2 million increase during the nine months ended September 30, 2011 was due primarily to provision expense of $58.3 million, offset by net loan charge-offs of $45.0 million as their uncollectability became more measurable and apparent during the nine month period. Charge-offs were related primarily to the forestry ($14.5 million), processing, primarily chicken ($10.2 million), and ethanol ($8.5 million) segments. The allowance at September 30, 2011 included specific reserves of $7.1 million (25.45 percent of the total) and general reserves of $21.0 million (74.55 percent). None of the allowance relates to the Direct Note portfolio. The total allowance at September 30, 2011 was comprised primarily of reserves for the forestry (23.67 percent), processing, primarily chicken (18.54 percent), cattle (16.08 percent), and other real estate (14.32 percent) segments. Declining real estate values impacted charge-offs and reserves in most 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 September 30, 2011, AgFirst had $27.682 billion in total debt outstanding compared to $28.326 billion at December 31, 2010. Total interest-bearing liabilities decreased primarily due to the decrease in loan volume as discussed in this report which reduced funding requirements.

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

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

Cash and cash equivalents, which increased $274.3 million from December 31, 2010 to a total of $1.701 billion at September 30, 2011, consist primarily of cash on deposit and money market securities that are short term in nature (from overnight maturities to maturities that range up to 90 days). Money market securities must carry one of the two highest short-term ratings as designated from a Nationally Recognized Statistical Rating Organization (NRSRO). The increase in cash and cash equivalents was due primarily to efforts to maintain high quality liquidity for near term debt maturities that increased at September 30, 2011 compared to December 31, 2010. In addition, management increased targets for cash and cash equivalent liquidity in the third quarter of 2011 due to U.S. Government debt ceiling debates negatively impacting financial markets.

Investment securities totaled $7.883 billion, or 25.99 percent of total assets at September 30, 2011, compared to $8.077 billion, or 26.24 percent, as of December 31, 2010. Investment securities decreased $193.7 million (2.40 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 $907.0 million at September 30, 2011. These held-to-maturity investments were primarily Rural Housing Mortgage-Backed Securities purchased under a Mission Related Investment pilot program approved by the FCA in 2005.

Investment securities classified as being available-for-sale totaled $6.976 billion at September 30, 2011. Available-for-sale investments at September 30, 2011 included $5.039 billion in Government National Mortgage Association (GNMA) securities backed by the full faith and credit of the U.S. Government, $1.660 billion in Agency mortgage backed securities, $247.5 million in non-agency collateralized mortgage obligations (CMOs), and $29.6 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 September 30, 2011, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require a liquidity policy that establishes a minimum "coverage" level of 90 days. "Coverage" is defined as the number of days that maturing debt could be funded through the sale of eligible available-for-sale investments and cash and cash equivalents maintained by the Bank. At September 30, 2011, AgFirst's coverage was 194 days, compared to 208 days at December 31, 2010. At September 30, 2011, the Bank's cash and cash equivalents position provided 23 days coverage (Bank policy minimum is 15 days) and investment securities fully backed by the U.S. government provided an additional 121 days of coverage. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation of 194 days.

The FCA considers non-agency asset-backed or mortgage-backed investment securities ineligible if they fall below the top category (AAA/Aaa) credit rating by the NRSROs. The Bank must obtain specific approval from the FCA to continue to hold an ineligible security. For each of these investment securities in the Bank's portfolio at September 30, 2011 rated below AAA/Aaa (total fair value of $215.4 million and amortized cost of $264.2 million), the Bank has developed and submitted plans for approval by the FCA that permit the Bank to continue to hold the securities. The FCA has approved, with conditions, the Bank's plans for all but two investments that have recently become ineligible. The Bank is in the process of submitting the plan to obtain approval from the FCA to hold these two investments. Management is of the opinion that holding these securities will result in a higher return for the Bank than liquidating them. Based on the Bank's analysis, no other-than-temporary credit related impairment was recognized in 2011 on these recently ineligible securities.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain Bank ineligible securities are risk weighted between 50 percent and 200 percent instead of the standard 20 percent. These ineligible securities had a fair value of $102.5 million and amortized cost of $127.0 million at September 30, 2011. Other ineligible securities must be deducted completely from both capital and risk adjusted assets, based on the extent of their below investment grade rating from NRSROs. These securities had a fair value of $52.8 million and amortized cost of $65.2 million at September 30, 2011. The fair value and amortized cost of ineligible non-agency reperformer CMO securities covered by Federal Housing Administration insurance and therefore risk weighted at the standard 20 percent, was $60.1 million and $72.1 million, respectively, at September 30, 2011. See the *Capital Resources* section below for further discussion of the regulatory ratios. In addition, all ineligible investments, except non-agency reperformer CMOs which meet certain conditions, are excluded from liquidity coverage as defined above.

Net unrealized gains related to the available-for-sale securities were $122.5 million at September 30, 2011, compared to total net unrealized gains 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 guarantees. Based on the results of all analyses, the Bank recognized other-than-temporary credit related impairment of $8.7 million on asset-backed securities and non-agency CMOs in its portfolio for the nine months ended September 30, 2011, which was included in Net Other-Than-Temporary Impairment Losses on Investments in the Statements of Income. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis. Payment shortfalls, net of insurance recoveries, on asset-backed securities have totaled only $15.6 million life to date ($5.1 million in 2011), compared to total other-than-temporary credit related impairment charges life to date of $39.5 million ($3.6 million in 2011). Total other-than-temporary credit related impairment charges on non-agency CMOs have totaled $14.3 million life to date ($5.1 million in 2011). There have been no payment shortfalls on non-agency CMOs. See Note 2, *Investment Securities*, in the Notes to the Financial Statements for further information.

The 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.

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

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

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

Capital Resources

Total shareholders' equity increased $344.9 million (18.12 percent) from December 31, 2010 to a total of $2.248 billion at September 30, 2011. This increase is primarily attributed to 2011 unallocated retained earnings from net income of $294.5 million, increases of $78.8 million in net unrealized gains during 2011 on investments available-for-sale, and a change in the fair value of derivatives of $2.9 million. Offsetting the increases was a dividend payment of $13.7 million on perpetual preferred stock and capital stock retirements of $7.8 million. The Bank also declared and distributed to District Associations $10.0 million of cash patronage in June 2011.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios (see below). The FCA notified AgFirst that the June 2007 issuance of $250.0 million of Perpetual Non-Cumulative Subordinated Preferred Stock could be included in core surplus up to an amount not to exceed 25.00 percent of total core surplus, inclusive of the preferred stock component. Based on this regulatory guidance, applied to the core surplus ratio at September 30, 2011, all of the $250.0 million in preferred stock has been included. Also in conjunction with AgFirst's issuance of the Mandatorily Redeemable Preferred Stock in 2001, as referenced above in the *Liquidity and Funding Sources* section, FCA now requires AgFirst to maintain a minimum net collateral ratio of 104.00 percent compared to the System regulatory minimum of 103.00 percent. Unlike the permanent capital, total surplus and core surplus ratios, the net collateral ratio does not incorporate any risk-adjusted weighting of assets. The collateral ratio is calculated by dividing the Bank's collateral, as defined by FCA regulations, by total liabilities.

AgFirst's regulatory ratios are shown in the following table:

	Regulatory Minimum	9/30/11	12/31/10	9/30/10
Permanent Capital Ratio	7.00%	23.48%	21.22%	19.84%
Total Surplus Ratio	7.00%	23.45%	21.19%	19.80%
Core Surplus Ratio	3.50%	15.74%	13.79%	12.48%
Net Collateral Ratio	104.00%	107.66%	106.44%	107.11%

The Bank's permanent capital, total surplus, and core surplus ratios increased at September 30, 2011 as compared to December 31, 2010 due to increased permanent capital and decreased assets. These ratios are calculated using three month average daily balances for both capital and assets. 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 September 30, 2011 was $86.5 million, compared to $100.5 million at September 30, 2010, a decrease of $14.0 million, or 13.95 percent. Net income for the nine months ended September 30, 2011 was $294.5 million, compared to $307.2 million at September 30, 2010, a decrease of $12.7 million, or 4.13 percent.

Key results of operations comparisons

	Annualized for the nine months ended September 30, 2011	For the year ended December 31, 2010	Annualized for the nine months ended September 30, 2010
Return on average assets	1.32%	1.37%	1.35%
Return on average shareholders' equity	19.02%	22.25%	22.79%
Net interest income as a percentage of average earning assets	2.06%	1.96%	1.93%
Net (charge-offs) recoveries to average loans	(0.293)%	(0.276)%	(0.201)%

Net Interest Income

Net interest income for the three months ended September 30, 2011 was $150.4 million compared to $140.5 million for the same period of 2010, an increase of $9.9 million or 7.01 percent. For the nine months ended September 30, 2011, net interest income was $441.9 million, compared to $421.2 million for the nine months ended September 30, 2010, an increase of $20.8 million, or 4.93 percent. The net interest margin was 2.08 percent and 2.06 percent in the current year three and nine month periods respectively, an improvement of 16 basis points and 13 basis points over the same periods of 2010. Spreads improved for several reasons, but primarily resulted from called debt being replaced by new debt issued at lower interest rates, decreasing funding costs. Net interest income resulting from the change in balance sheet volume decreased slightly due to lower loan volume as previously discussed. Prospectively, as assets continue to reprice in the lower interest rate environment, spreads and margins will narrow, which will negatively affect net interest income.

The following table illustrates the changes in net interest income:

	For the three months ended September 30, 2011 vs. September 30, 2010			For the nine months ended September 30, 2011 vs. September 30, 2010		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	$ (2,001)	$ (13,414)	$ (15,415)	$ (6,514)	$ (46,304)	$ (52,818)
Investments & Cash Equivalents	(1,393)	2,707	1,314	(4,165)	7,219	3,054
Total Interest Income	$ (3,394)	$ (10,707)	$ (14,101)	$ (10,679)	$ (39,085)	$ (49,764)
Interest Expense:						
Interest-Bearing Liabilities	$ (2,726)	$ (21,231)	$ (23,957)	$ (8,803)	$ (61,731)	$ (70,534)
Changes in Net Interest Income	$ (668)	$ 10,524	$ 9,856	$ (1,876)	$ 22,646	$ 20,770

Provision for Loan Losses

AgFirst measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. The provision for loan losses was $28.0 million and $58.3 million for the three and nine month periods ended September 30, 2011, compared to $11.1 million and $33.6 million for the same periods in 2010. Provision for loan loss expense for the three months ended

September 30, 2011 consisted of $30.3 million related to reserves for specific credits and a reversal of $2.3 million related to general reserves. The $58.3 million in provision for loan loss expense for the nine months ended September 30, 2011 consisted of $47.7 million related to reserves for specific credits and $10.6 million related to general reserves. Provision expense for the three months ended September 30, 2011 related primarily to borrowers in the forestry (46.55 percent of the provision expense total) and processing, primarily chicken, (37.63 percent) segments. Provision expense for the nine months ended September 30, 2011 related primarily to borrowers in the forestry (33.50 percent of the provision expense total), processing, primarily chicken, (24.50 percent), cattle (11.85 percent), and other real estate (11.27 percent) segments.

As mentioned previously, declining real estate values were, in part, the reason for 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 September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2011**	**2010**	**Increase/ (Decrease)**	**2011**	**2010**	**Increase/ (Decrease)**
Loan fees	$ 2,861	$ 5,895	$ (3,034)	$ 9,416	$ 12,277	$ (2,861)
Gains (losses) from other property owned, net	(2,127)	1,530	(3,657)	(7,243)	2,182	(9,425)
Gains (losses) on investments, net	–	–	–	3,048	1,568	1,480
Net impairment losses on investments	(569)	–	(569)	(8,679)	(9,985)	1,306
Gains (losses) on sale of rural home loans, net	(76)	–	(76)	(162)	(112)	(50)
Patronage refunds from other Farm Credit Institutions	10	10	–	105	275	(170)
Insurance premium refunds	–	–	–	–	10,440	(10,440)
Other noninterest income	856	1,258	(402)	3,413	2,855	558
Total noninterest income	$ 955	$ 8,693	$ (7,738)	$ (102)	$ 19,500	$ (19,602)

Noninterest income for the three months ended September 30, 2011 decreased $7.7 million (89.01 percent) compared to the corresponding period in 2010. For the nine months ended September 30, 2011, noninterest income decreased $19.6 million (100.52 percent) compared to the corresponding period in 2010. The decreases for the three month and nine month periods were due primarily to increased losses from other property owned and decreased loan fees. The nine month period decrease also resulted from the receipt in 2010 of insurance premium refunds.

The Bank recorded $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 for the period ended September 30, 2011.

Net losses from other property owned for the three and nine months ended September 30, 2011 increased $3.7 million and $9.4 million, respectively. See discussion of 2011 expense in the *Other Property Owned* section above. Gains from disposals of other property owned during the 2010 periods included recognition of previously deferred gains from ethanol plant sales in accordance with accounting guidance.

The decrease in loan fees of 51.47 percent and 23.30 percent for the three and nine month periods ended September 30, 2011 was due primarily to a $3.1 million prepayment penalty for a significant loan that paid off in September 2010.

Gains on the sales of investment securities increased 94.39 percent for the nine months ended September 30, 2011 compared to the same period in 2010. Sales in both periods were the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio.

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

Other noninterest income decreased $402 thousand for the three months ended September 30, 2011 primarily due to a decline in performance of investments which fund the non-qualified pension plans. Other noninterest income improved $558 thousand for the nine months ended September 30, 2011 primarily due to an allocated loss based on claims experience with the System's captive insurance company that was reflected as a reduction to 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 September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2011**	**2010**	**Increase/ (Decrease)**	**2011**	**2010**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 10,510	$ 9,739	$ 771	$ 32,272	$ 29,647	$ 2,625
Occupancy and equipment	3,225	3,841	(616)	9,877	11,139	(1,262)
Insurance Fund premiums	1,352	1,272	80	4,044	3,999	45
Other operating expenses	6,172	5,344	828	16,832	15,413	1,419
Called debt expense	13,436	15,186	(1,750)	19,295	33,292	(13,997)
Correspondent lending servicing expense	2,124	2,078	46	6,611	6,135	476
Other noninterest expense	–	70	(70)	105	209	(104)
Total noninterest expense	$ 36,819	$ 37,530	$ (711)	$ 89,036	$ 99,834	$ (10,798)

Noninterest expense for the three months ended September 30, 2011 was $36.8 million, which reflected a decrease of $711 thousand (1.89 percent) compared to the corresponding period in 2010. For the nine months ended September 30, 2011, noninterest expense was $89.0 million, which reflected a decrease of $10.8 million (10.82 percent) compared to the corresponding period in 2010. The decrease for the three month and nine month periods was due primarily to the decrease in called debt expense.

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

The increase in salaries and employee benefits of 7.92 percent and 8.85 percent for the three and nine month periods ended September 30, 2011 was due primarily to normal salary administration, increased employee benefit costs, and an increase in number of employees at September 30, 2011 compared to September 30, 2010.

Occupancy and equipment expense for the three months and nine months ended September 30, 2011 decreased 16.04 percent and 11.33 percent, respectively. These decreases were due primarily to lower depreciation expense as a result of several capitalized projects which fully depreciated in third quarter 2010 and January 2011.

FCSIC premiums increased minimally for the three and nine month periods. The 2011 base annual premium rate is 6 basis points compared to the 2010 base annual premium rate of 5 basis points.

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

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

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

REGULATORY MATTERS

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

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

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

DISTRICT MERGER ACTIVITY

Please refer to Note 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)	September 30, 2011	December 31, 2010
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	**$ 1,701,318**	$ 1,427,033
Investment securities:		
Available for sale (amortized cost of $6,853,507 and $6,980,661 respectively)	**6,976,049**	7,024,364
Held to maturity (fair value of $988,238 and $1,114,064 respectively)	**906,953**	1,052,314
Total investment securities	**7,883,002**	8,076,678
Loans	**20,428,537**	20,905,165
Less: allowance for loan losses	**28,109**	14,873
Net loans	**20,400,428**	20,890,292
Accrued interest receivable	**85,323**	84,692
Investments in other Farm Credit System institutions	**65,154**	65,300
Premises and equipment, net	**12,032**	11,361
Other property owned	**23,918**	39,719
Due from associations	**11,498**	20,550
Other assets	**142,473**	165,941
Total assets	**$ 30,325,146**	$ 30,781,566
Liabilities		
Bonds and notes	**$ 27,681,591**	$ 28,325,569
Mandatorily redeemable preferred stock	**225,000**	225,000
Accrued interest and dividends payable	**44,774**	57,816
Patronage distribution payable	**—**	190,543
Other liabilities	**126,140**	79,857
Total liabilities	**28,077,505**	28,878,785
Commitments and contingencies (Note 6)		
Shareholders' Equity		
Perpetual preferred stock	**400,000**	400,000
Capital stock and participation certificates	**409,500**	417,333
Retained earnings		
Allocated	**858**	871
Unallocated	**1,323,120**	1,052,248
Accumulated other comprehensive income (loss)	**114,163**	32,329
Total shareholders' equity	**2,247,641**	1,902,781
Total liabilities and equity	**$ 30,325,146**	$ 30,781,566

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

Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2011	2010	For the nine months ended September 30, 2011	2010
Interest Income				
Investment securities and other	**$ 49,273**	$ 47,959	**$ 147,899**	$ 144,845
Loans	**172,823**	188,238	**524,268**	577,086
Total interest income	**222,096**	236,197	**672,167**	721,931
Interest Expense	**71,729**	95,686	**230,240**	300,774
Net interest income	**150,367**	140,511	**441,927**	421,157
Provision for loan losses	**27,997**	11,144	**58,273**	33,626
Net interest income after provision for loan losses	**122,370**	129,367	**383,654**	387,531
Noninterest Income				
Loan fees	**2,861**	5,895	**9,416**	12,277
Gains (losses) from other property owned, net	**(2,127)**	1,530	**(7,243)**	2,182
Gains (losses) on investments, net	**—**	—	**3,048**	1,568
Total other-than-temporary impairment losses on investments (Note 2)	**(642)**	—	**(3,521)**	(2,110)
Portion of loss recognized in other comprehensive income (loss) (Note 2)	**73**	—	**(5,158)**	(7,875)
Net other-than-temporary impairment losses on investments included in earnings	**(569)**	—	**(8,679)**	(9,985)
Gains (losses) on sale of rural home loans, net	**(76)**	—	**(162)**	(112)
Patronage refunds from other Farm Credit institutions	**10**	10	**105**	275
Insurance premium refunds	**—**	—	**—**	10,440
Other noninterest income	**856**	1,258	**3,413**	2,855
Total noninterest income	**955**	8,693	**(102)**	19,500
Noninterest Expenses				
Salaries and employee benefits	**10,510**	9,739	**32,272**	29,647
Occupancy and equipment	**3,225**	3,841	**9,877**	11,139
Insurance Fund premiums	**1,352**	1,272	**4,044**	3,999
Other operating expenses	**6,172**	5,344	**16,832**	15,413
Called debt expense	**13,436**	15,186	**19,295**	33,292
Correspondent lending servicing expense	**2,124**	2,078	**6,611**	6,135
Other noninterest expense	**—**	70	**105**	209
Total noninterest expenses	**36,819**	37,530	**89,036**	99,834
Net income	**$ 86,506**	$ 100,530	**$ 294,516**	$ 307,197

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				307,197		307,197
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 2)					19,742	
Not other-than-temporarily impaired (Note 2)					159,651	
Total unrealized gains (losses) on investments available for sale						179,393
Employee benefit plans adjustments					205	205
Total comprehensive income						486,795
Capital stock/participation certificates issued/(retired), net		(10,086)				(10,086)
Perpetual preferred stock dividends paid				(13,706)		(13,706)
Cash patronage				(10,197)		(10,197)
Patronage distribution adjustment			(150)	150		—
Balance at September 30, 2010	$ 400,000	$ 428,621	$ 815	$ 1,147,306	$ 56,394	$ 2,033,136
Balance at December 31, 2010	**$ 400,000**	**$ 417,333**	**$ 871**	**$ 1,052,248**	**$ 32,329**	**$ 1,902,781**
Comprehensive income						
Net income				**294,516**		**294,516**
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 2)					**3,611**	
Not other-than-temporarily impaired (Note 2)					**75,228**	
Total unrealized gains (losses) on investments available for sale						**78,839**
Employee benefit plans adjustments					**85**	**85**
Change in value of firm commitments - when issued securities (Note 8)					**2,910**	**2,910**
Total comprehensive income						**376,350**
Capital stock/participation certificates issued/(retired), net		**(7,826)**				**(7,826)**
Perpetual preferred stock dividends paid				**(13,706)**		**(13,706)**
Patronage distribution						
Cash distributions declared				**(10,000)**		**(10,000)**
Nonqualified allocated retained earnings			**14**	**(14)**		**—**
Retained earnings retired			**(27)**			**(27)**
Patronage distribution adjustment		**(7)**		**76**		**69**
Balance at September 30, 2011	**$ 400,000**	**$ 409,500**	**$ 858**	**$ 1,323,120**	**$ 114,163**	**$ 2,247,641**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2011	2010
Cash flows from operating activities:		
Net income	**$ 294,516**	$ 307,197
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**4,831**	6,217
Premium amortization (discount accretion) on investment securities	**15,271**	28,222
(Premium amortization) discount accretion on bonds and notes	**(591)**	(5,480)
Provision for loan losses	**58,273**	33,626
(Gains) losses on other property owned, net	**7,243**	(2,182)
Net impairment losses on investments	**8,679**	9,985
(Gains) losses on investments, net	**(3,048)**	(1,568)
(Gains) losses on sales of rural home loans, net	**162**	112
Net change in loans held for sale	**17,846**	569
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**(631)**	2,159
(Increase) decrease in due from associations	**9,052**	29,230
(Increase) decrease in other assets	**17,535**	(6,321)
Increase (decrease) in accrued interest and dividends payable	**(13,042)**	(31,094)
Increase (decrease) in other liabilities	**46,368**	(35,271)
Total adjustments	**167,948**	28,204
Net cash provided by (used in) operating activities	**462,464**	335,401
Cash flows from investing activities:		
Investment securities purchased	**(925,201)**	(1,553,945)
Investment securities sold or matured	**1,176,814**	1,738,753
(Increase) decrease in forward purchases - when issued securities	**2,910**	—
Net (increase) decrease in loans	**406,587**	406,409
(Increase) decrease in investments in other Farm Credit System institutions	**146**	12,065
Purchase of premises and equipment, net	**(5,502)**	(3,964)
Proceeds from sale of other property owned	**15,554**	9,550
Net cash provided by (used in) investing activities	**671,308**	608,868
Cash flows from financing activities:		
Bonds and notes issued	**30,695,172**	47,053,340
Bonds and notes retired	**(31,332,626)**	(48,156,430)
Capital stock and participation certificates issued/retired, net	**(7,826)**	(10,086)
Cash distribution to shareholders	**(200,474)**	(192,921)
Dividends paid on perpetual preferred stock	**(13,706)**	(13,706)
Retained earnings retired	**(27)**	—
Net cash provided by (used in) financing activities	**(859,487)**	(1,319,803)
Net increase (decrease) in cash and cash equivalents	**274,285**	(375,534)
Cash and cash equivalents, beginning of period	**1,427,033**	938,884
Cash and cash equivalents, end of period	**$ 1,701,318**	$ 563,350
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other property owned	**$ 6,996**	$ 10,069
Change in unrealized gains (losses) on investments and derivative instruments, net	**78,839**	179,393
Change in fair value of derivative instruments (Note 8)	**(9,116)**	—
Employee benefit plans adjustments	**85**	205
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	**$ (5,933)**	$ 10,834
Decrease (increase) in other assets	**5,933**	(10,606)
Increase (decrease) in other liabilities	**—**	(228)
Supplemental information:		
Interest paid	**$ 243,873**	$ 337,348

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 third quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Shareholders.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011.

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

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

Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-09 , "Compensation (Topic 715): Retirement Benefits – Multiemployer Plans." The amendment is intended to provide for more information about an employer's financial obligations to multiemployer pension and other postretirement benefit plans, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include the following: (1) a description of the nature of plan benefits; (2) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and (3) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented.

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

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

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

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

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

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

	September 30, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. GNMA MBS/CMOs	$ 4,873,005	$ 169,655	$ (3,764)	$ 5,038,896	2.48%
U.S. Govt. Agency MBS	1,643,207	26,645	(9,809)	1,660,043	1.44
Non-Agency CMOs (a)	301,798	411	(54,676)	247,533	0.58
Asset-Backed Securities (a)	35,497	1,826	(7,746)	29,577	0.55
Total	$ 6,853,507	$ 198,537	$ (75,995)	$ 6,976,049	2.14%

	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 $13.4 million for Non-Agency CMOs and $5.8 million for Asset-Backed Securities.
(b) Gross unrealized losses include non-credit related other-than temporary impairment recognized in AOCI of $13.9 million for Non-Agency CMOs and $9.1 million for Asset-Backed Securities.

Held-to-maturity

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

	September 30, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. Agency MBS	$ 750,022	$ 64,040	$ (223)	$ 813,839	5.26%
Mission Related Investments	156,931	17,468	–	174,399	6.11
Total	$ 906,953	$ 81,508	$ (223)	$ 988,238	5.41%

	December 31, 2010				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. Agency MBS	$ 913,648	$ 57,611	$ (248)	$ 971,011	5.35%
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 September 30, 2011 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield
U.S. Govt. GNMA MBS/CMOs	$ –	– %	$ –	– %	$ 1,361	1.01 %	$ 5,037,535	2.48 %	$ 5,038,896	2.48 %
U.S. Govt. Agency MBS	–	–	15,594	4.70	30,225	0.72	1,614,224	1.42	1,660,043	1.44
Non-Agency CMOs	–	–	–	–	–	–	247,533	0.58	247,533	0.58
Asset-Backed Securities	–	–	–	–	–	–	29,577	0.55	29,577	0.55
Total fair value	$ –	– %	$ 15,594	4.70 %	$ 31,586	0.73 %	$ 6,928,869	2.14 %	$ 6,976,049	2.14 %
Total amortized cost	$ –		$ 14,300		$ 31,469		$ 6,807,738		$ 6,853,507	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield
U.S. Govt. Agency MBS	$ –	– %	$ –	– %	$ 1,520	4.96 %	$ 748,502	5.26 %	$ 750,022	5.26 %
Mission Related Investments	–	–	24,403	6.63	31,521	6.09	101,007	5.99	156,931	6.11
Total amortized cost	$ –	– %	$ 24,403	6.63 %	$ 33,041	6.04 %	$ 849,509	5.35 %	$ 906,953	5.41 %
Total fair value	$ –		$ 25,575		$ 35,420		$ 927,243		$ 988,238	

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

During the first nine months of 2011, proceeds from sales of agency securities were $57.0 million and realized gains were $3.0 million. During the first nine months of 2010, proceeds from sales of agency securities were $57.5 million and realized gains were $1.6 million.

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

The FCA considers non-agency CMOs or ABSs ineligible if they fall below the AAA/Aaa credit rating criteria by the NRSROs. The Bank must obtain approval from the FCA to continue to hold an ineligible security. Non-agency CMO securities not rated in the top category by at least one of the NRSROs at September 30, 2011 had a fair value of $195.1 million. ABSs not rated in the top category by at least one of the NRSROs at September 30, 2011 had a fair value of $20.3 million. For each of these securities rated below AAA/Aaa, the Bank has developed and submitted plans to the FCA which permit the securities to be held to maturity. The FCA has approved, with conditions, the Bank’s plans for all but two investments that have recently become ineligible. The Bank is in the process of submitting a plan to hold these two investments to FCA for approval.

Held-to-maturity Mission Related Investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Program approved by the FCA.

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

	September 30, 2011					
	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. GNMA MBS/CMOs	$ 44,171	$ (124)	$ 289,143	$ (3,640)	$ 333,314	$ (3,764)
U.S. Govt. Agency MBS	20,432	(99)	571,394	(9,933)	591,826	(10,032)
Non-Agency CMOs	–	–	246,495	(54,676)	246,495	(54,676)
Asset-Backed Securities	–	–	26,878	(7,746)	26,878	(7,746)
Mission Related Investments	–	–	–	–	–	–
Total	$ 64,603	$ (223)	$ 1,133,910	$ (75,995)	$ 1,198,513	$ (76,218)

	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, and (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 nine months of 2011 of $3.5 million in connection with ABS securities and non-agency CMO securities in its portfolio, which is included in Impairment Losses on Investments in the 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 $3.5 million is separated into: (1) the estimated amount relating to credit loss ($8.7 million reflected in Net Income in the Statements of Income), which is partially offset by (2) the amount relating to all other factors ($5.2 million reflected in other comprehensive income in the 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 September 30, 2011 ranged from 1.69 percent to 44.87 percent for non-agency CMO securities and from 22.68 percent to 86.17 percent for ABS securities. Prepayment rate assumptions are based on forecasted prepayments and resulted in prepayment rates that ranged from 5.78 percent to 16.96 percent for non-agency CMO securities and from 3.14 percent to 5.61 percent for ABS securities at September 30, 2011. At September 30, 2011, the loss severity rates estimated from assumptions ranged from 5.09 percent to 64.52 percent for non-agency CMO securities and from 64.61 percent to 100.00 percent for ABS securities.

For all investments, other than the other-than-temporarily impaired securities discussed above, the 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 nine months ended September 30, 2011, net unrealized gains of $75.2 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 September 30, 2011 and 2010:

(dollars in thousands)	**For the nine months ended September 30, 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	7,215
Reductions for increases in expected cash flows	(812)
Ending balance at September 30, 2011	$ 52,657

(dollars in thousands)	**For the nine months ended September 30, 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	9,764
Ending balance at September 30, 2010	$ 43,144

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 September 30, 2011 and December 31, 2010 follows:

(dollars in thousands)	September 30, 2011	December 31, 2010
Direct notes	$ 14,472,607	$ 14,778,448
Real estate mortgage	1,267,000	1,401,285
Production and intermediate-term	1,239,624	1,486,639
Agribusiness		
Loans to cooperatives	180,511	162,167
Processing and marketing	704,006	712,171
Farm-related business	112,069	61,801
Total agribusiness	996,586	936,139
Communication	122,557	113,021
Energy	266,045	296,213
Water and waste disposal	28,000	28,000
Rural residential real estate	2,006,478	1,831,928
Lease receivables	–	6,331
Loans to other financial institutions (OFIs)	12,250	5,000
Other (including mission-related)	17,390	22,161
Total Loans	$ 20,428,537	$ 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 participations purchased and sold balances at September 30, 2011 and December 31, 2010:

September 30, 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	$ 1,123,806	$ 34,060	$ 92,398	$ 40,987	$ 17,807	$ –	$ 1,234,011	$ 75,047
Production and intermediate-term	1,325,500	279,337	214,257	208,342	192,603	–	1,732,360	487,679
Agribusiness								
Loans to cooperatives	9,815	47,534	196,857	–	22,715	–	229,387	47,534
Processing and marketing	203,850	294,593	300,214	26,422	564,871	31,997	1,068,935	353,012
Farm-related business	38,582	23,619	79,464	–	18,466	–	136,512	23,619
Total agribusiness	252,247	365,746	576,535	26,422	606,052	31,997	1,434,834	424,165
Communication	–	33,907	157,298	–	–	–	157,298	33,907
Energy	167	16,264	259,803	–	23,652	–	283,622	16,264
Water and waste disposal	–	–	28,000	–	–	–	28,000	–
Loans to OFIs	–	–	–	–	12,250	–	12,250	–
Other (including mission-related)	17,577	–	–	–	–	–	17,577	–
Total	$ 2,719,297	$ 729,314	$ 1,328,291	$ 275,751	$ 852,364	$ 31,997	$ 4,899,952	$ 1,037,062

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

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 September 30, 2011 and indicates that approximately 11.67 percent of loans had maturities of less than one year:

(dollars in thousands)	**Due less than 1 year**	**Due 1 Through 5 years**	**Due after 5 years**	**Total**
Direct notes	$ 1,721,640	$ 4,843,597	$ 7,907,370	$ 14,472,607
Real estate mortgage	179,368	366,623	721,009	1,267,000
Production and intermediate-term	298,970	639,498	301,156	1,239,624
Agribusiness				
Loans to cooperatives	12,880	78,602	89,029	180,511
Processing and marketing	138,906	445,447	119,653	704,006
Farm-related business	6,824	76,997	28,248	112,069
Total agribusiness	158,610	601,046	236,930	996,586
Communication	–	80,577	41,980	122,557
Energy	24,499	98,452	143,094	266,045
Water and waste disposal	–	–	28,000	28,000
Rural residential real estate	–	1,940	2,004,538	2,006,478
Loans to OFIs	–	12,250	–	12,250
Other (including mission-related)	–	133	17,257	17,390
Total Loans	$ 2,383,087	$ 6,644,116	$ 11,401,334	$ 20,428,537

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

	September 30, 2011	December 31, 2010
Direct notes:		
Acceptable	85.73%	83.96%
OAEM	11.21	11.28
Substandard/doubtful/loss	3.06	4.76
	100.00%	100.00%
Real estate mortgage:		
Acceptable	81.10%	82.93%
OAEM	9.90	8.28
Substandard/doubtful/loss	9.00	8.79
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	74.89%	79.49%
OAEM	15.39	14.46
Substandard/doubtful/loss	9.72	6.05
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	96.83%	95.12%
OAEM	3.17	4.88
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	86.32%	78.10%
OAEM	6.31	11.48
Substandard/doubtful/loss	7.37	10.42
	100.00%	100.00%
Farm-related business:		
Acceptable	99.41%	99.42%
OAEM	0.59	0.58
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total agribusiness:		
Acceptable	89.69%	82.46%
OAEM	5.10	9.61
Substandard/doubtful/loss	5.21	7.93
	100.00%	100.00%

	September 30, 2011	December 31, 2010
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	99.19%	97.94%
OAEM	0.81	0.80
Substandard/doubtful/loss	–	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%
OAEM	–	–
Substandard/doubtful/loss	–	–
	–%	100.00%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including mission-related):		
Acceptable	90.90%	73.93%
OAEM	1.77	1.41
Substandard/doubtful/loss	7.33	24.66
	100.00%	100.00%
Total Loans:		
Acceptable	86.67%	85.21%
OAEM	9.75	10.00
Substandard/doubtful/loss	3.58	4.79
	100.00%	100.00%

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

	September 30, 2011					
(dollars in thousands)	**30 Through 89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment 90 Days or More Past Due and Accruing Interest**
Direct notes	$ –	$ –	$ –	$ 14,505,999	$ 14,505,999	$ –
Real estate mortgage	3,900	59,847	63,747	1,213,871	1,277,618	879
Production and intermediate-term	2,206	34,257	36,463	1,212,029	1,248,492	–
Agribusiness						
Loans to cooperatives	–	–	–	181,598	181,598	–
Processing and marketing	–	2,620	2,620	704,965	707,585	–
Farm-related business	8	–	8	112,311	112,319	–
Total agribusiness	8	2,620	2,628	998,874	1,001,502	–
Communication	–	–	–	122,797	122,797	–
Energy and water/waste disposal	–	–	–	296,046	296,046	–
Rural residential real estate	33,980	5,554	39,534	1,973,646	2,013,180	4,742
Lease receivables	–	–	–	–	–	–
Loans to OFIs	–	–	–	12,267	12,267	–
Other (including mission-related)	–	–	–	17,654	17,654	–
Total	$ 40,094	$ 102,278	$ 142,372	$ 20,353,183	$ 20,495,555	$ 5,621

	December 31, 2010					
(dollars in thousands)	**30 Through 89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment 90 Days or More Past Due and Accruing Interest**
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 September 30, 2011 and December 31, 2010 are summarized as follows:

(dollars in thousands)	September 30, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	$ 80,084	$ 74,838
Production and intermediate-term	55,536	35,002
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	14,163	3,825
Farm-related business	–	–
Total agribusiness	14,163	3,825
Energy and water/waste disposal	–	–
Rural residential real estate	3,846	509
Other (including mission-related)	1,090	1,546
Total nonaccrual loans	$ 154,719	$ 115,720
Accruing restructured loans:		
Real estate mortgage	$ 4,211	$ 5,010
Production and intermediate-term	8,047	9,610
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	26,981	30,683
Farm-related business	–	–
Total agribusiness	26,981	30,683
Energy and water/waste disposal	–	–
Rural residential real estate	–	–
Other (including mission-related)	–	–
Total accruing restructured loans	$ 39,239	$ 45,303
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 879	$ 686
Production and intermediate-term	–	–
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Farm-related business	–	–
Total agribusiness	–	–
Energy and water/waste disposal	–	–
Rural residential real estate	4,742	5,889
Other (including mission-related)	–	–
Total accruing loans 90 days or more past due	$ 5,621	$ 6,575
Total nonperforming loans	$ 199,579	$ 167,598
Other property owned	23,918	39,719
Total nonperforming assets	$ 223,497	$ 207,317
Nonaccrual loans as a percentage of total loans	0.76%	0.55%
Nonperforming assets as a percentage of total loans and other property owned	1.09%	0.99%
Nonperforming assets as a percentage of capital	9.94%	10.90%

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

(dollars in thousands)	September 30, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	$ 57,149	$ 33,894
Past due	97,570	81,826
Total impaired nonaccrual loans	154,719	115,720
Impaired accrual loans:		
Restructured	39,239	45,303
90 days or more past due	5,621	6,575
Total impaired accrual loans	44,860	51,878
Total impaired loans	$ 199,579	$ 167,598

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

	September 30, 2011			Quarter Ended September 30, 2011		Nine Months Ended September 30, 2011	
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 21,390	$ 25,072	$ 3,161	$ 37,855	$ –	$ 21,831	$ –
Production and intermediate-term	9,162	12,070	2,904	16,213	–	13,813	–
Agribusiness							
Loans to cooperatives	–	–	–	–	–	–	–
Processing and marketing	5,533	5,723	1,050	9,792	–	7,978	–
Total agribusiness	5,533	5,723	1,050	9,792	–	7,978	–
Energy and water/waste disposal	–	–	–	–	–	1,226	–
Rural residential real estate	103	103	38	103	–	34	–
Other (including mission-related)	–	–	–	–	–	1,033	–
Total	$ 36,188	$ 42,968	$ 7,153	$ 63,963	$ –	$ 45,915	$ –
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 63,784	$ 125,662	$ –	$ 49,915	$ 86	$ 60,137	$ 432
Production and intermediate-term	54,421	83,277	–	63,655	110	47,801	422
Agribusiness							
Loans to cooperatives	–	–	–	910	(32)	800	–
Processing and marketing	35,611	61,358	–	29,762	425	34,060	1,355
Total agribusiness	35,611	61,358	–	30,672	393	34,860	1,355
Energy and water/waste disposal	–	–	–	857	(20)	330	–
Rural residential real estate	8,485	8,496	–	3,545	(35)	3,962	109
Other (including mission-related)	1,090	1,879	–	1,575	–	867	–
Total	$ 163,391	$ 280,672	$ –	$ 150,219	$ 534	$ 147,957	$ 2,318
Total impaired loans:							
Real estate mortgage	$ 85,174	$ 150,734	$ 3,161	$ 87,770	$ 86	$ 81,968	$ 432
Production and intermediate-term	63,583	95,347	2,904	79,868	110	61,614	422
Agribusiness							
Loans to cooperatives	–	–	–	910	(32)	800	–
Processing and marketing	41,144	67,081	1,050	39,554	425	42,038	1,355
Total agribusiness	41,144	67,081	1,050	40,464	393	42,838	1,355
Energy and water/waste disposal	–	–	–	857	(20)	1,556	–
Rural residential real estate	8,588	8,599	38	3,648	(35)	3,996	109
Other (including mission-related)	1,090	1,879	–	1,575	–	1,900	–
Total	$ 199,579	$ 323,640	$ 7,153	$ 214,182	$ 534	$ 193,872	$ 2,318

	December 31, 2010			Year Ended December 31, 2010	
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 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 (including mission-related)	–	–	–	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 September 30, 2011 and December 31, 2010.

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

	September 30, 2011									
(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	–	(18,141)	(18,855)	(3,835)	–	(3,218)	(36)	–	(1,273)	(45,358)
Recoveries	–	319	2	–	–	–	–	–	–	321
Provision for loan losses	–	28,411	22,472	3,803	(56)	2,933	74	2	634	58,273
Balance at September 30, 2011	$ –	$ 15,425	$ 9,557	$ 2,690	$ 13	$ 22	$ 38	$ 2	$ 362	$ 28,109
September 30, 2011 allowance ending balance:										
Loans individually evaluated for impairment	$ –	$ 3,161	$ 2,904	$ 1,050	$ –	$ –	38	$ –	$ –	$ 7,153
Loans collectively evaluated for impairment	$ –	$ 12,264	$ 6,653	$ 1,640	$ 13	$ 22	$ –	$ 2	$ 362	$ 20,956
Recorded investment in loans outstanding:										
Ending Balance at September 30, 2011	$ 14,505,999	$ 1,277,618	$ 1,248,492	$ 1,001,502	$ 122,797	$ 296,046	$ 2,013,180	$ –	$ 29,921	$ 20,495,555
September 30, 2011 recorded investment ending balance:										
Loans individually evaluated for impairment	$ 14,505,999	$ 284,220	$ 311,627	$ 332,764	$ –	$ 76,126	$ 2,013,180	$ –	$ 5,785	$ 17,529,701
Loans collectively evaluated for impairment	$ –	$ 993,398	$ 936,865	$ 668,738	$ 122,797	$ 219,920	$ –	$ –	$ 24,136	$ 2,965,854

	December 31, 2010									
(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 September 30, 2011 and December 31, 2010 for each of the fair value hierarchy levels:

	September 30, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	$ –	$ 5,038,896	$ –	$ 5,038,896
U.S. Govt. Agency MBS	–	1,660,043	–	1,660,043
Non-Agency CMOs	–	–	247,533	247,533
Asset-backed securities	–	–	29,577	29,577
Total investments available-for-sale	–	6,698,939	277,110	6,976,049
Commercial paper, bankers' acceptances, CD's & others	–	10,000	–	10,000
Federal funds sold, securities purchased under resale agreements, and other	–	82,312	–	82,312
Interest rate swaps and other financial instruments	–	56,647	–	56,647
Assets held in trust funds	3,181	–	–	3,181
Total Assets	$ 3,181	$ 6,847,898	$ 277,110	$ 7,128,189
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ –	$ –	$ –
Collateral liabilities	–	25,475	–	25,475
Standby letters of credit	–	–	1,765	1,765
Total Liabilities	$ –	$ 25,475	$ 1,765	$ 27,240

	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 nine months ended September 30, 2011 and 2010. The Bank had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first nine months of 2011 and 2010.

(dollars in thousands)	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters of Credit
Balance at January 1, 2011	$ 34,437	$ 295,526	$ 1,263
Total gains or (losses) realized/unrealized:			
Included in earnings	(2,771)	(5,096)	–
Included in other comprehensive income (loss)	2,847	7,858	–
Purchases	–	–	–
Sales	–	–	–
Issuances	–	–	502
Settlements	(4,936)	(50,755)	–
Transfers in and/or out of level 3	–	–	–
Balance at September 30, 2011	$ 29,577	$ 247,533	$ 1,765

(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	(7,139)	(2,846)	–
Included in other comprehensive income (loss)	12,013	34,491	–
Purchases, sales, issuances and settlements, net	(11,936)	(70,171)	(1,200)
Transfers in and/or out of level 3	–	–	–
Balance at September 30, 2010	$ 40,403	$ 321,501	$ 1,261

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

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

	September 30, 2011				
(dollars in thousands)	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 29,035	$ 29,035	$ (47,673)
Other property owned	–	–	27,580	27,580	(6,685)

	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 September 30, 2011 and December 31, 2010. Carrying amounts include accrued interest if applicable.

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

	September 30, 2011		December 31, 2010	
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Loans, net of allowance	$ 20,467,446	$ 20,762,310	$ 20,956,414	$ 21,073,358
Derivative assets	56,647	56,647	62,245	62,245
Cash and cash equivalents	1,701,318	1,701,318	1,427,033	1,427,033
Investment securities	7,901,307	7,964,287	8,095,248	8,138,428
Assets held in trust funds	3,181	3,181	2,983	2,983
Financial liabilities:				
Systemwide debt securities	$ 27,720,805	$ 27,868,789	$ 28,382,546	$ 28,284,708
Derivative liabilities	–	–	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 (System) bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the banks are jointly and severally liable for the bonds and notes of the other System banks. The bonds and notes of the System totaled $183.361 billion at September 30, 2011.

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 nine months ended September 30,	
(dollars in thousands)	**2011**	**2010**
Pension	$ 7,292	$ 6,791
401k	826	704
Other postretirement benefits	886	742
Total	$ 9,004	$ 8,237

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 9/30/11**	**Projected Contributions for Remainder of 2011**	**Projected Total Contributions 2011**
Pensions	$ 219	$ 7,278	$ 7,497
Other postretirement benefits	703	374	1,077
Total	$ 922	$ 7,652	$ 8,574

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. They may allow the Bank to lower funding costs, allow it to diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Interest rate swaps enable the 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 these 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. In addition, 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 primary type of derivative instrument used and the amount of activity for the nine months ended September 30, 2011 is summarized in the following table:

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

By using derivative instruments, the 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 September 30, 2011 of $56.6 million was with six counterparties and represented approximately 8.87 percent of the total notional amount of interest rate swaps. The Bank held $25.5 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 fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the nine months ended September 30, 2011 was $5.9 million, while the amount of the gain on the Systemwide debt securities was $5.9 million. The amount of the gain on interest rate swaps recognized in interest expense for the nine months ended September 30, 2010 was $10.6 million, while the amount of the loss on the Systemwide debt securities was $10.6 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

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

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

For derivative instruments that are designated and qualify as a cash flow hedge, such as the 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 September 30, 2011 and December 31, 2010:

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

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

The following tables set forth the amount of net gain (loss) recognized in the Statements of Income for the nine months ended September 30, 2011 and 2010.

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

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

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

NOTE 9 – DISTRICT MERGER ACTIVITY

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

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

NOTE 10 – SUBSEQUENT EVENTS

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