



**AgFIRST FARM CREDIT BANK
& DISTRICT ASSOCIATIONS**

Quarterly Report

First Quarter 2010

FIRST QUARTER 2010

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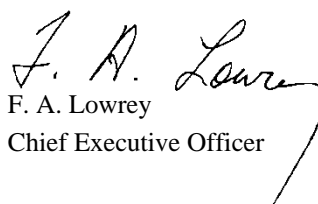
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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2010 quarterly report of AgFirst Farm Credit Bank and District Associations, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Paul M. House
Chairman of the Board



F. A. Lowrey
Chief Executive Officer



Charl L. Butler
Chief Financial Officer

May 7, 2010

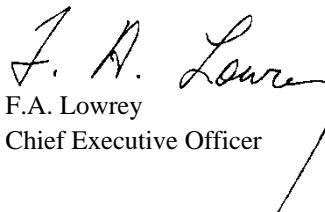
Report on Internal Control Over Financial Reporting


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

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

The Bank and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2010. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank and each District Association concluded that as of March 31, 2010, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank and each District Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2010.


F.A. Lowrey
Chief Executive Officer


Charl L. Butler
Chief Financial Officer

May 7, 2010

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, as of and for the three month period ended March 31, 2010. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2009 Annual Report of AgFirst Farm Credit Bank and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

As of March 31, 2010, the District consisted of AgFirst and twenty-two District Associations. Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. However, the three months' results of operations may be not be indicative of an entire year due to the seasonal nature of a portion of the District's business.

FINANCIAL CONDITION

Loan Portfolio

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

Loan Types <i>(dollars in thousands)</i>	March 31, 2010		December 31, 2009		March 31, 2009	
Real Estate Mortgage	\$ 9,862,393	43 %	\$ 9,870,486	43 %	\$ 9,641,148	42 %
Production and Intermediate-Term	7,973,562	35	8,270,399	36	8,062,335	36
Rural Residential Real Estate	2,074,831	9	2,007,563	9	1,759,843	9
Processing and Marketing	1,512,555	7	1,652,286	7	1,921,160	7
Loans to Cooperatives	375,181	2	355,392	2	528,342	2
Farm-Related Business	353,262	2	353,353	1	416,998	2
Energy	348,807	1	352,446	1	299,145	1
Communication	184,216	1	185,261	1	218,675	1
Water and Waste Disposal	28,024	—	28,000	—	28,753	—
Lease Receivables	14,574	—	15,871	—	20,383	—
Loans to OFIs	6,500	—	7,000	—	6,000	—
Other (including Mission Related)	98,723	—	110,132	—	46,213	—
Total	\$ 22,832,628	100 %	\$ 23,208,189	100 %	\$ 22,948,995	100 %

Total loans outstanding were \$22.83 billion at March 31, 2010, a decrease of \$375.6 million, or 1.62 percent, compared to total loans outstanding at December 31, 2009. The decline in loan volume reflected continued weak loan demand, a trend that began in late 2008 and continued through 2009. For several years prior to 2008, loan growth had been very strong. This abrupt change in loan demand was a result of the downturn in the general economy that started in 2008. Future loan demand is very difficult to predict. However, it is expected to remain weak at least for the majority of 2010.

The weakened economy has affected the Bank's and District Associations' current and prospective customers in a number of ways, including lowering the demand and price for certain agricultural products and lowering the value of real estate

and other investment holdings of some borrowers. These conditions have been detrimental to the general sentiment and financial capacity of many of the District's customers. As a result, customers have reduced production, delayed expansion plans, and generally taken actions to preserve their investment and working capital. All of these factors have contributed to the lower loan demand throughout the District.

Credit Quality

Credit quality has also been adversely affected by the weak economy. Although the decline in credit quality has lessened during the most recent quarter, problem asset levels remained elevated as can be seen in the following table:

Credit Quality as of:			
Classification	March 31, 2010	December 31, 2009	March 31, 2009
Acceptable	86.55%	87.17%	90.05%
OAEM *	6.28%	5.98%	5.34%
Substandard	7.12%	6.78%	4.57%
Doubtful/loss	0.05%	0.07%	0.04%

* *Other Assets Especially Mentioned*

Taken as a whole, the agricultural industry has been less severely impacted by the adverse economic environment than many other industry segments. However, many customers in the District rely on off-farm income. While this tends to diversify and strengthen the performance of the loan portfolio over time, during periods of adversity in the general economy, these customers, and consequently the Bank's and District's credit quality, are negatively impacted in a manner similar to commercial bank customers.

Certain commodity groups within the broad agricultural segment have also been adversely affected in the current economic cycle. As an example, housing-related industries such as timber, sawmills, nurseries, and sod operations remain stressed. Their improvement is dependent on general economic conditions such as employment levels and housing market pricing. Declining real estate values negatively impacted the credit quality of certain loans secured by transitional agricultural real estate. Transitional agricultural real estate is defined as agricultural land, usually lying in the path of economic development, where the land value cannot be supported solely by agricultural activity.

Loan portfolio credit quality was adversely affected by deteriorating economic conditions, including lower real estate values, in certain geographic areas within the Bank's and District's chartered territory, particularly in Florida. Beginning in 2008, real estate values declined, population growth slowed, and housing foreclosures increased in Florida. Other areas of the District experienced a less severe reduction in real estate values. However, real estate sales continue to be weak throughout.

In 2009, over-supply in the pork and dairy industries affected pricing for these commodities and resulted in lower revenue for many producers. Higher input prices, such as corn and other feed, were also prevalent during certain periods of 2009, which further reduced profit margins for these producers as well as those in other segments that use these inputs. Supplies of pork and dairy products appear to be easing, which will result in improved pricing. Also, the costs of grain, oil, and certain other inputs have moderated, which should prove beneficial to livestock producers.

Although the ethanol sector has stabilized, profit margins remain low, making the industry vulnerable to fluctuations in corn prices and blended gasoline demand. At March 31, 2010, ethanol loans in the District's non-performing asset portfolio amounted to \$58.8 million.

Continued weakness in the general economy and certain agricultural sectors will have an impact on credit quality for some time. Although credit quality may be stabilizing, some problem assets will take an extended period of time to fully resolve, due to their dependency on general economic conditions, including employment, the housing market, and transitional real estate values.

District management reviews, on an ongoing basis, the District's acceptable level of risk tolerance at the individual loan and portfolio levels. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

Nonaccrual Loans, Other Property Owned, and Allowance for Loan Losses

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at March 31, 2010, were \$812.7 million compared to \$769.7 million at December 31, 2009. Nonaccrual loans increased \$43.0 million, net of charge-offs and transfers to other property owned, for the three months ended March 31, 2010 primarily due to one borrower relationship of \$37.2 million in the forestry segment that was transferred into nonaccrual. The ten largest nonaccrual borrower relationships accounted for 35.48 percent of the total nonaccrual balance at March 31, 2010. These ten largest nonaccrual relationships were classified in the forestry (23.49 percent of the ten largest total), ethanol (18.74 percent), swine (16.82 percent), other real estate (12.35 percent), cattle (11.62 percent), citrus (8.57 percent), and other (8.49 percent) segments. Some of these nonaccrual loans are secured by transitional agricultural real estate, which has been negatively impacted by declining real estate values as discussed above. Nonaccrual loans were 3.56 percent of total loans outstanding at March 31, 2010.

Other property owned (OPO) primarily consists of assets once held as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO can consist of real estate, equipment, and equity interests in companies or partnerships. OPO decreased \$2.8 million during the three months ended March 31, 2010 and totaled \$70.6 million at March 31, 2010. This decrease is due primarily to sales of \$14.4 million and \$810 thousand in write-downs. These decreases were offset by \$12.5 million of properties that were related to other real estate and forestry transferred into OPO.

The District maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was \$190.0 million at March 31, 2010, as compared with \$195.1 million at December 31, 2009. The decrease during the three months ended March 31, 2010 was due primarily to charge-offs of \$24.5 million for loan amounts deemed to be uncollectible in the forestry and other real estate segments. The total allowance at March 31, 2010 is comprised primarily of reserves for the forestry (21.36 percent of the total), swine (7.41 percent), nursery/greenhouse (6.84 percent), cattle (6.83 percent), ethanol (6.06 percent), fruits and vegetables (5.78 percent), poultry (5.51 percent), and dairy (4.71 percent) segments. Declining transitional agricultural real estate values impacted charge-offs and reserves in several of the loan segments, including forestry, cattle, and citrus. See Note 3, *Allowance for Loan Losses and Impaired Loans*, in the Notes to the Combined Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding increases to the allowance from provision expense.

Liquidity and Funding Sources

One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. The primary source of funds for AgFirst is the issuance of Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation. At March 31, 2010, the District had \$28.21 billion in total debt outstanding compared to \$28.89 billion at December 31, 2009. In addition, other interest-bearing liabilities for the District included \$225.0 million in Bank Mandatorily Redeemable Preferred Stock in both periods. Total interest-bearing liabilities decreased primarily due to the decrease in loan volumes as discussed in this report. Despite some continuing adversity in the financial debt markets, the Bank anticipates continued access to funding through the issuance of Farm Credit System debt.

AgFirst maintains a \$150.0 million unsecured committed line of credit facility obtained from its primary commercial depository bank. The line of credit is tied to AgFirst's master cash management clearing account.

Cash and cash equivalents, which decreased \$49.9 million from December 31, 2009 to a total of \$931.2 million at March 31, 2010, are primarily cash on deposit and money market securities that are short term in nature (from overnight maturities to maturities that range up to 90 days). Money market securities must carry one of the two highest short-term ratings from a rating agency.

Investment securities totaled \$8.42 billion, or 25.59 percent of total assets at March 31, 2010, compared to \$8.44 billion, or 25.27 percent, as of December 31, 2009. Investment securities decreased \$25.7 million (0.30 percent) compared to December 31, 2009, primarily as management maintained the investment securities portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

As of March 31, 2010, AgFirst exceeded all applicable regulatory liquidity requirements. Farm Credit Administration (FCA) regulations require a liquidity policy that establishes a minimum “coverage” level of 90 days. “Coverage” is defined as the number of days that maturing debt could be funded through the sale of eligible available-for-sale investments and cash and cash equivalents maintained by the Bank. At March 31, 2010, AgFirst’s coverage was 161 days. The Bank’s cash position provided 18 days of the total 161 days of liquidity coverage. Investment securities fully backed by the U.S. government provided an additional 88 days of liquidity. 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 161 days.

Investment securities classified as being available-for-sale totaled \$6.94 billion at March 31, 2010. Available-for-sale investments at March 31, 2010 included \$4.20 billion in Agency Collateralized Mortgage Obligations (CMOs), \$2.32 billion in Agency Adjustable Rate Mortgages, \$343.6 million in non-agency CMOs, and \$65.5 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.

Investment securities classified as being held-to-maturity totaled \$1.48 billion at March 31, 2010. 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.

Total net unrealized losses relating to the available-for-sale securities decreased \$41.2 million during the three months ended March 31, 2010 to a total of \$80.7 million. These net unrealized losses are reflected in Accumulated Other Comprehensive Income (AOCI) in the Combined Financial Statements. The net unrealized losses stem from both normal market factors such as the current interest rate environment and some continued illiquidity in certain mortgage debt security markets. The Bank also recognized credit-related losses of \$6.8 million for other-than-temporary impairment during the three months ended March 31, 2010 on asset-backed securities and non-agency CMO securities in its portfolio as discussed below.

District available-for-sale asset-backed securities totaled \$65.5 million at March 31, 2010. The District has low exposure to investments backed by subprime mortgages. Asset-backed securities with subprime exposure were in the Bank’s portfolio only and totaled \$40.0 million, which represented 0.58 percent of the available-for-sale liquidity investment portfolio and 0.47 percent of the total investment security portfolio at March 31, 2010. The amortized cost of these investment securities totaled \$57.0 million and a negative market value adjustment for asset-backed securities of \$17.0 million was included in the total \$80.7 million of net unrealized losses reflected in AOCI at March 31, 2010. The District’s asset-backed securities not rated in the highest category (AAA/Aaa) by at least one of the Nationally Recognized Statistical Rating Organizations (NRSROs) at March 31, 2010, totaled \$28.7 million (amortized cost value of \$44.5 million). Despite the uncertainty in the mortgage securities markets, which has adversely impacted the market value of all asset-backed securities, payment shortfalls on these securities have totaled only \$8.0 million life to date (\$2.3 million in 2010).

Non-agency CMOs have also experienced significant market pricing volatility. District non-agency CMOs totaled \$343.6 million, which represented 4.95 percent of the available-for-sale liquidity investment portfolio and 4.08 percent of the total investment security portfolio at March 31, 2010. The amortized cost of these investment securities totaled \$436.9 million and a negative market value adjustment for non-agency CMOs of \$93.3 million was included in the total \$80.7 million of

net unrealized losses reflected in AOCI at March 31, 2010 as discussed above. The District's non-agency CMO securities not rated in the highest category (AAA/Aaa) by at least one of the NRSROs at March 31, 2010 had a total fair value of \$202.8 million and an amortized cost of \$264.0 million. All of the District's non-agency CMO securities continue to perform.

The FCA considers asset-backed and mortgage-backed investment securities rated below AAA/Aaa by the NRSROs to be ineligible and requires System institutions to divest their portfolios of such investments. However, System institutions may seek approval to continue to hold these investments. For each of the investment securities in the District's portfolio at March 31, 2010 rated below AAA/Aaa (total fair value of \$232.1 million and amortized cost of \$309.4 million), the District has developed and submitted plans for approval by the FCA that provide that the securities may continue to be held. The FCA has approved with conditions the District's plans for all except those investments that have most recently become ineligible, which the FCA is still in the process of reviewing. For purposes of the permanent capital, total surplus, and core surplus regulatory ratios, certain Bank ineligible securities at March 31, 2010 are risk weighted 200 percent, 100 percent, or 50 percent instead of the standard 20 percent in calculating the risk adjusted assets amount. These ineligible securities had a fair value of \$105.0 million and amortized cost of \$136.6 million. Other ineligible securities must be deducted completely from both capital and risk adjusted assets, based on the extent of their below investment grade rating from NRSROs. For the District, these securities had a fair value of \$127.1 million and amortized cost of \$172.8 million at March 31, 2010. For purposes of the net collateral ratio, all ineligible investments are stated at lower of cost or market. See the *Capital Resources* section below for further discussion of the regulatory ratios. In addition, all ineligible investments are excluded from liquidity coverage as defined above.

The District performs periodic credit reviews, including other-than-temporary impairment analysis, 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 any future possible loss of principal or interest due on each identified security. The credit enhancements specific to the individual security are considered as appropriate, and may include monoline credit insurance, subordination, over-collateralization, and excess interest spread. Asset-backed securities covered by insurers are analyzed with insurance and without, to quantify the extent of reliance on their guarantee. Based on the results of all analyses, the District recognized other-than-temporary credit related impairment of \$6.8 million on asset-backed securities and non-agency CMOs in its portfolio during the three months ended March 31, 2010, which was included in Net Impairment Losses on Investments in the Combined Statements of Income. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

For all other investments, the District has not recognized any other-than-temporary impairment as it has determined that the decline in market value was caused primarily by reduced liquidity in the mortgage securities markets or other normal market factors. The District has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities.

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

Capital Resources

Total District shareholders' equity increased \$225.7 million from December 31, 2009 to March 31, 2010. This 6.22 percent net increase is primarily attributed to an increase in unallocated retained earnings from net income of \$178.3 million, a decrease of \$41.2 million in unrealized losses on investments available-for-sale, a component of AOCI, and an increase of \$6.9 million in capital stock and participation certificates. As of March 31, 2010, AgFirst and each of the District Associations exceeded the applicable minimum permanent capital, core surplus, total surplus, and net collateral ratio requirements established by FCA Regulations.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2010 was \$178.3 million, compared to \$74.0 million at March 31, 2009, an increase of \$104.3 million, or 141.06 percent. The overall increases are discussed below.

Net Interest Income

Net interest income for the three months ended March 31, 2010 was \$255.7 million compared to \$214.1 million for the same period of 2009, an increase of \$41.6 million or 19.39 percent. Net interest margin was 3.25 percent in the current year three month period, an improvement of 51 basis points over the same period of 2009. Spreads improved as called debt was replaced by new debt issued at a lower rate of interest thereby increasing net interest income. Loan pricing compared to the underlying cost of funds also improved during the 2010 period. Change in net interest income due to the change in balance sheet volume was very minimal as a result of very limited loan growth as previously discussed.

The following table illustrates the changes in net interest income:

	For the three months ended March 31, 2010 vs. March 31, 2009		
	Increase (decrease) due to changes in:		
	Volume	Rate	Total
<i>(dollars in thousands)</i>			
Interest Income:			
Loans	\$ (72)	\$ (12,842)	\$ (12,914)
Investments & Cash Equivalents	1,270	(3,875)	(2,605)
Total Interest Income	\$ 1,198	\$ (16,717)	\$ (15,519)
Interest Expense:			
Interest-Bearing Liabilities	\$ 3,622	\$ (60,657)	\$ (57,035)
Changes in Net Interest Income	\$ (2,424)	\$ 43,940	\$ 41,516

Provision for Loan Losses

The provision for loan losses was \$18.2 million for the three month period ended March 31, 2010, compared to \$36.9 million for the same period in 2009. Provision expense for the three month period ended March 31, 2010 was comprised primarily of industry categories of forestry: \$9.6 million, other real estate: \$5.2 million, cattle: \$3.8 million, non-farm income: \$3.3 million, nursery/greenhouse: \$2.3 million, swine: \$1.1 million, and ethanol: (\$10.7 million reversal).

As mentioned previously, declining transitional agricultural real estate values were, in part, the reason for some of the provision expense recognized by the District.

See Note 3, *Allowance for Loan Losses and Impaired Loans*, in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	For the three months ended March 31,		
	2010	2009	Increase/ (Decrease)
<i>(dollars in thousands)</i>			
Loan fees	\$ 10,855	\$ 12,289	\$ (1,434)
Fees for financially related services	1,420	1,589	(169)
Gains (losses) from other property owned, net	(565)	(787)	222
Gains (losses) on investments, net	1,483	—	1,483
Net impairment losses on investments	(6,758)	(5,453)	(1,305)
Gains (losses) on derivatives, net	—	571	(571)
Gains (losses) on sale of rural home loans, net	360	609	(249)
Gains from sale of premises and equipment, net	83	369	(286)
Patronage refunds from other Farm			
Credit institutions	629	1,633	(1,004)
Insurance premium refund	34,327	—	34,327
Other noninterest income	1,546	2,285	(739)
Total noninterest income	<u>\$ 43,380</u>	<u>\$ 13,105</u>	<u>\$ 30,275</u>

Noninterest income for the three months ended March 31, 2010 was \$43.4 million, which reflected an increase of \$30.3 million compared to the same period in 2009. The increase was due primarily to the District's recording \$34.3 million of insurance premium refunds during the first quarter of 2010 from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. Also, adding to the increase in noninterest income were gains of \$1.5 million on the sales of four investments during the first quarter of 2010. These sales were the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio. Offsetting the increases to noninterest income was an increase of \$1.3 million in the recognition of credit related other-than-temporary impairment on several of the Bank's investment securities during the first quarter of 2010 as compared to the first quarter of 2009. See discussion of 2010 credit related other-than-temporary impairment above. Also, other noninterest income decreased \$739 thousand primarily due to a captive insurance allocated loss based on claims experience.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	For the three months ended March 31,		
	2010	2009	Increase/ (Decrease)
<i>(dollars in thousands)</i>			
Salaries and employee benefits	\$ 60,147	\$ 60,131	\$ 16
Occupancy and equipment	8,761	8,526	235
Insurance Fund premium	6,100	11,649	(5,549)
Other operating expenses	19,664	19,763	(99)
Called debt expense	5,785	13,801	(8,016)
Correspondent lending servicing expense	1,945	1,618	327
Other noninterest expense	69	69	—
Total noninterest expense	<u>\$ 102,471</u>	<u>\$ 115,557</u>	<u>\$ (13,086)</u>

Noninterest expense for the three months ended March 31, 2010 was \$102.5 million, which reflected a decrease of \$13.1 million compared to the corresponding period in 2009. This decrease of \$13.1 million was primarily due to a decrease in Insurance Fund premiums and called debt expense offset by an increase in salaries and employee benefits, occupancy and equipment, and correspondent lending servicing expense.

Insurance Fund premiums decreased \$5.5 million (47.63 percent) for the three month period primarily due to a change in the premium rate charged. Effective January 1, 2010, the annual premium rate was reduced to 10 basis points compared to the 20 basis points charged in 2009.

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 \$8.0 million (58.08 percent) for the three month period. Call options were exercised on bonds totaling \$4.5 billion during the first quarter of 2010 compared to \$7.6 billion during the first quarter of 2009. 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.

Other noninterest expense consists of amortization of the Bank's mandatorily redeemable preferred stock issuance costs.

Key results of operations comparisons:

	Annualized for the three months ended March 31, 2010	For the year ended December 31, 2009	Annualized for the three months ended March 31, 2009
Return on average assets	2.18%	1.12%	0.93%
Return on average shareholders' equity	19.34%	10.79%	9.37%
Net interest income as a percentage of average earning assets	3.25%	2.93%	2.74%
Net (charge-offs) recoveries to average loans	(0.41)%	(0.59)%	(0.23)%

REGULATORY MATTERS

During 2010, the FCA has entered into written supervisory agreements with two District Associations whose combined assets totaled less than \$900.0 million at March 31, 2010. The written supervisory agreements require those District Associations to take corrective actions with respect to certain areas of their operations, including capital, portfolio management, and asset quality. These enforcement actions will not have a significant impact on the Bank's or District's financial condition or results of operations. The FCA has taken no other enforcement actions against the Bank or other District Associations during 2010.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Combined Financial Statements, and the 2009 Annual Report of AgFirst Farm Credit Bank and District Associations for recently issued accounting pronouncements.

NOTE: Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Stephen Gilbert, Controller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank's website, www.agfirst.com. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Combined Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2010 <i>(unaudited)</i>	December 31, 2009 <i>(audited)</i>
Assets		
Cash and cash equivalents	\$ 931,152	\$ 981,041
Investment securities:		
Available for sale (amortized cost of \$7,018,521 and \$7,008,151 respectively)	6,937,802	6,886,270
Held to maturity (fair value of \$1,525,121 and \$1,585,825 respectively)	1,478,716	1,555,960
Total investment securities	8,416,518	8,442,230
Loans	22,832,628	23,208,189
Less: allowance for loan losses	189,981	195,132
Net loans	22,642,647	23,013,057
Loans held for sale	7,136	4,974
Other investments	291,822	367,461
Accrued interest receivable	197,499	206,470
Investments in other Farm Credit System institutions	10,493	22,074
Premises and equipment, net	125,254	126,850
Other property owned	70,587	73,354
Deferred tax assets, net	1	1
Other assets	194,588	167,985
Total assets	\$ 32,887,697	\$ 33,405,497
Liabilities		
Bonds and notes	\$ 28,211,222	\$ 28,894,013
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividend payable	82,425	83,164
Dividends and patronage refunds payable	7,043	79,622
Pension and other postretirement benefits liability	330,438	324,734
Advanced conditional payments	12,808	7,962
Other liabilities	166,041	163,975
Total liabilities	29,034,977	29,778,470
Commitments and contingencies (Note 6)	—	—
Shareholders' Equity		
Perpetual preferred stock	400,000	400,000
Protected borrower equity	3,895	4,205
Capital stock and participation certificates	145,406	138,504
Retained earnings		
Allocated	1,193,873	1,199,441
Unallocated	2,500,336	2,323,523
Accumulated other comprehensive income (loss)	(390,790)	(438,646)
Total shareholders' equity	3,852,720	3,627,027
Total liabilities and equity	\$ 32,887,697	\$ 33,405,497

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

Combined Statements of Income

(unaudited)

For the three months
ended March 31,

(dollars in thousands)

	2010	2009
Interest Income		
Investment securities	\$ 50,423	\$ 52,278
Loans	305,076	317,990
Other	3,929	4,679
Total interest income	359,428	374,947
Interest Expense	103,763	160,798
Net interest income	255,665	214,149
Provision for (reversal of) loan losses	18,192	36,927
Net interest income after provision for (reversal of) loan losses	237,473	177,222
Noninterest Income		
Loan fees	10,855	12,289
Fees for financially related services	1,420	1,589
Gains (losses) from other property owned, net	(565)	(787)
Gains (losses) on investments, net	1,483	—
Total other-than-temporary impairment losses on investments (Note 2)	(1,930)	(18,634)
Portion of loss recognized in other comprehensive income (Note 2)	(4,828)	13,181
Net other-than-temporary impairment losses on investments included in earnings	(6,758)	(5,453)
Gains (losses) on derivatives, net	—	571
Gain (loss) on sale of rural home loans	360	609
Gains from sale of premises and equipment, net	83	369
Patronage refunds from other Farm Credit institutions	629	1,633
Insurance premium refund	34,327	—
Other noninterest income	1,546	2,285
Total noninterest income	43,380	13,105
Noninterest Expenses		
Salaries and employee benefits	60,147	60,131
Occupancy and equipment	8,761	8,526
Insurance Fund premiums	6,100	11,649
Other operating expenses	19,664	19,763
Called debt expense	5,785	13,801
Correspondent lending servicing expense	1,945	1,618
Other noninterest expense	69	69
Total noninterest expenses	102,471	115,557
Income before income taxes	178,382	74,770
Provision (benefit) for income taxes	103	815
Net income	\$ 178,279	\$ 73,955

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Shareholders' Equity
(dollars in thousands)				Allocated	Unallocated		
Balance at December 31, 2008	\$ 400,000	\$ 4,670	\$ 129,529	\$ 1,126,994	\$ 2,191,324	\$ (730,791)	\$ 3,121,726
Cumulative-effect adjustment for investment impairment accounting change (Note 2)					3,474	(3,474)	—
Comprehensive income							
Net income					73,955		73,955
Unrealized gains (losses) on investments available for sale:							
Other-than-temporarily impaired (Note 2)						(13,181)	
Temporarily impaired (Note 2)						73,375	
Total unrealized gains (losses) on investments available for sale							60,194
Employee benefit plans adjustment						7,175	7,175
Total comprehensive loss							141,324
Protected borrower equity retired		(276)					(276)
Capital stock/participation certificates issued/(retired), net			3,954				3,954
Dividends declared/paid			137		(137)		—
Patronage distribution							
Cash					(4,263)		(4,263)
Retained earnings retired				(9,460)			(9,460)
Patronage distribution adjustment				2,348	(2,483)		(135)
Balance at March 31, 2009	\$ 400,000	\$ 4,394	\$ 133,620	\$ 1,119,882	\$ 2,261,870	\$ (666,896)	\$ 3,252,870
Balance at December 31, 2009	\$ 400,000	\$ 4,205	\$ 138,504	\$ 1,199,441	\$ 2,323,523	\$ (438,646)	\$ 3,627,027
Comprehensive income							
Net income					178,279		178,279
Unrealized gains (losses) on investments available for sale:							
Other-than-temporarily impaired (Note 2)						4,539	
Temporarily impaired (Note 2)						36,623	
Total unrealized gains (losses) on investments available for sale							41,162
Employee benefit plans adjustments						6,694	6,694
Total comprehensive income							226,135
Protected borrower equity retired		(310)					(310)
Capital stock/participation certificates issued/(retired), net			6,721				6,721
Dividends declared/paid			181		(181)		—
Patronage distribution							
Cash					(2,099)		(2,099)
Retained earnings retired				(4,809)			(4,809)
Patronage distribution adjustment				(759)	814		55
Balance at March 31, 2010	\$ 400,000	\$ 3,895	\$ 145,406	\$ 1,193,873	\$ 2,500,336	\$ (390,790)	\$ 3,852,720

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 178,279	\$ 73,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	4,490	4,585
Amortization of net deferred loan origination (fees) costs	(3,303)	(2,620)
Premium amortization/discount accretion on investment securities	5,498	(2,054)
Premium amortization/discount accretion on bonds and notes	(4,003)	8,142
Provision for (reversal of) loan losses	18,192	36,927
(Gains) losses on other property owned, net	565	787
(Gains) losses from sale of premises and equipment, net	(83)	(369)
Net impairment losses on investments	6,758	5,453
(Gains) losses on derivatives, net	—	(571)
(Gains) losses on investments, net	(1,483)	—
Gains (losses) on sales of rural home loans, net	(360)	(609)
Net change in loans held for sale	4,588	12,293
(Increase) decrease in accrued interest receivable	8,971	27,842
(Increase) decrease in deferred tax assets, net	—	—
(Decrease) increase in deferred tax liabilities, net	—	(3)
(Increase) decrease in other assets	(28,487)	(22,663)
Increase (decrease) in accrued interest payable	(739)	(51,500)
Increase (decrease) in pension and other postretirement benefits liability	5,704	7,480
Increase (decrease) in other liabilities	2,231	157,326
Total adjustments	18,539	180,446
Net cash provided by (used in) operating activities	196,818	254,401
Cash flows from investing activities:		
Investment securities purchased	(603,653)	(756,211)
Investment securities sold or matured	662,583	509,456
Net (increase) decrease in loans	339,167	59,642
(Increase) decrease in investments in other Farm Credit System institutions	11,581	211
Purchases of other investments	(1,778)	(2,525)
Proceeds from payments received on other investments	81,346	77,818
Purchase of premises and equipment, net	(2,953)	(6,237)
Proceeds from sale of premises and equipment, net	142	531
Proceeds from sale of other property owned	12,166	4,662
Net cash provided by (used in) investing activities	498,601	(112,653)
Cash flows from financing activities:		
Bonds and notes issued	14,810,340	29,425,995
Bonds and notes retired	(15,487,473)	(29,595,092)
Net increase (decrease) in advanced conditional payments	4,846	33,687
Protected borrower equity retired	(310)	(276)
Capital stock and participation certificates issued/retired, net	6,721	3,954
Patronage refunds and dividends paid	(74,623)	(96,650)
Retained earnings retired	(4,809)	(9,460)
Net cash provided by (used in) financing activities	(745,308)	(237,842)
Net increase (decrease) in cash and cash equivalents	(49,889)	(96,094)
Cash and cash equivalents, beginning of period	981,041	316,010
Cash and cash equivalents, end of period	\$ 931,152	\$ 219,916
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	\$ 2,522	\$ 250
Loans transferred to other property owned	12,486	4,339
Patronage refund and dividends payable	2,099	4,263
Change in unrealized gains (losses) on investments and derivative instruments, net	41,162	60,194
Employee benefit plans adjustments	6,694	7,175
Cumulative-effect adjustment for investment impairment accounting change (Note 2)	—	(3,474)
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	\$ (1,655)	\$ (13,055)
Decrease (increase) in other assets	1,884	12,998
Increase (decrease) in other liabilities	(229)	(571)
Supplemental information:		
Interest paid	\$ 108,505	\$ 204,156
Taxes paid, net	268	1,650

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

Notes to the Combined Financial Statements

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

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

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District. All significant transactions and balances between AgFirst and the District Associations have been eliminated in combination. A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the District as of and for the year ended December 31, 2009 are contained in the 2009 Annual Report to Shareholders. These unaudited first quarter 2010 financial statements should be read in conjunction with the 2009 Annual Report to Shareholders.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010.

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

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

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

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses incurred in the remainder of the loan portfolio at the financial statement date, which excludes loans included under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar 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.

In addition to the recently issued accounting pronouncements discussed in the 2009 Annual Report to Shareholders, in June 2009, the FASB issued guidance "Accounting for Transfers of Financial Assets," which amended previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity

provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application was prohibited. This guidance must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting guidance) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance that requires consolidation. The District evaluated the impact of adoption on its loan participation agreements to ensure that participations would meet the requirements for sales treatment. The impact of adoption on January 1, 2010 was immaterial to the District's financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity.

Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application was prohibited. The District does not have any variable interest or controlling interest in a variable entity. Therefore, there was no impact of adoption of the guidance for the District.

In January 2010, the FASB issued guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more detail 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 are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the District's financial condition and results of operations but resulted in additional disclosures (see Note 4).

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 at March 31, 2010 and December 31, 2009 follows:

March 31, 2010					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA					
MBS/CMOs	\$ 4,160,305	\$ 49,582	\$ (6,506)	\$ 4,203,381	2.10%
U.S. Govt. Agency MBS	2,337,226	24,392	(37,377)	2,324,241	1.39
Non-Agency CMOs	436,875	—	(93,269)	343,606	0.65
Commercial MBS	1,488	—	(392)	1,096	7.49
Asset-Backed Securities	82,627	50	(17,199)	65,478	0.79
Total	\$ 7,018,521	\$ 74,024	\$ (154,743)	\$ 6,937,802	1.76%

December 31, 2009					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA					
MBS/CMOs	\$ 3,835,831	\$ 34,286	\$ (12,958)	\$ 3,857,159	2.04%
U.S. Govt. Agency MBS	2,595,257	22,374	(44,256)	2,573,375	1.58
Non-Agency CMOs	460,865	—	(100,839)	360,026	0.56
Commercial MBS	10,353	—	(539)	9,814	1.34
Asset-Backed Securities	105,845	55	(20,004)	85,896	0.79
Total	\$ 7,008,151	\$ 56,715	\$ (178,596)	\$ 6,886,270	1.75%

Held-to-maturity

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments at March 31, 2010 and December 31, 2009 follows:

March 31, 2010					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	\$ 1,169,658	\$ 53,485	\$ (278)	\$ 1,222,865	5.21%
Asset-Backed Securities	94,236	579	(883)	93,932	0.91
Mission Related Investments	214,822	2,640	(9,138)	208,324	5.99
Total	\$ 1,478,716	\$ 56,704	\$ (10,299)	\$ 1,525,121	5.05%

December 31, 2009					
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	\$ 1,250,051	\$ 47,751	\$ (289)	\$ 1,297,513	5.19%
Asset-Backed Securities	96,580	555	(912)	96,223	1.60
Mission Related Investments	209,329	2,329	(19,569)	192,089	6.13
Total	\$ 1,555,960	\$ 50,635	\$ (20,770)	\$ 1,585,825	5.10%

A summary of the expected maturity, estimated fair value and amortized cost of investment securities at March 31, 2010 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	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
<i>(dollars in thousands)</i>										
U.S. Govt. GNMA MBS/CMOs	\$ —	— %	\$ —	— %	\$ 1,563	0.65 %	\$ 4,201,818	2.10 %	\$ 4,203,381	2.10 %
U.S. Govt. Agency MBS	—	—	590	0.98	116,300	1.80	2,207,351	1.37	2,324,241	1.39
Non-Agency CMOs	—	—	—	—	—	—	343,606	0.65	343,606	0.65
Commercial MBS	—	—	—	—	—	—	1,096	7.49	1,096	7.49
Asset-Backed Securities	583	1.38	23,885	1.38	1,051	1.36	39,959	0.53	65,478	0.79
Total fair value	\$ 583	1.38 %	\$ 24,475	1.37 %	\$ 118,914	1.78 %	\$ 6,793,830	1.76 %	\$ 6,937,802	1.76 %
Total amortized cost	\$ 581		\$ 24,630		\$ 117,065		\$ 6,876,245		\$ 7,018,521	

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	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
<i>(dollars in thousands)</i>										
U.S. Govt. Agency MBS	\$ —	— %	\$ —	— %	\$ 2,672	5.01 %	\$ 1,166,986	5.21 %	\$ 1,169,658	5.21 %
Asset-Backed Securities	2,116	1.86	13,830	1.25	51,624	0.83	26,666	0.80	94,236	0.91
Mission Related Investments	5,715	6.14	7,623	3.82	40,686	6.70	160,798	5.91	214,822	5.99
Total amortized cost	\$ 7,831	4.98 %	\$ 21,453	2.16 %	\$ 94,982	3.46 %	\$ 1,354,450	5.21 %	\$ 1,478,716	5.05 %
Total fair cost	\$ 7,941		\$ 21,686		\$ 95,752		\$ 1,399,742		\$ 1,525,121	

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

During the first quarter of 2010, proceeds from sales of investment securities were \$76.3 million and net realized gains were \$1.5 million. There were no sales of investment securities during the first quarter of 2009.

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

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

MBSs are collateralized by U.S. government or U.S. agency guaranteed residential mortgages and all were rated AAA/Aaa at March 31, 2010. Non-agency CMO securities not rated in the top category by at least one of the NRSROs at March 31, 2010 had a fair value of \$203.4 million. ABSs not rated in the top category by at least one of the NRSROs at March 31, 2010 had a fair value of \$28.7 million. For each of these investment securities in the District's portfolio rated below AAA/Aaa, the District has developed and submitted plans for approval by the FCA that provide that the securities

may be held to maturity. The FCA has approved, with conditions, the District's plans for all except those investments that have recently become ineligible, which the FCA is still in the process of reviewing.

The fair value of all investments at March 31, 2010 split rated AAA/Aaa or lower by the NRSROs totaled \$369.5 million (amortized cost of \$478.4 million). This represents approximately 4.37 percent (and 5.63 percent) of total fair value (and amortized cost) of the District's total investment portfolio at March 31, 2010. Split rated AAA/Aaa is defined as a security maintaining different ratings by the NRSROs with at least one NRSRO rating the security AAA/Aaa.

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

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following table shows the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at March 31, 2010 and December 31, 2009.

	March 31, 2010					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. GNMA MBS/CMOs	\$ 50,963	\$ 126	\$ 853,222	\$ 6,379	\$ 904,185	\$ 6,505
U.S. Govt. Agency MBS	29,750	1,363	1,195,889	36,292	1,225,639	37,655
Non-Agency CMOs	—	—	343,606	93,269	343,606	93,269
Asset-Backed Securities	17,989	167	76,266	17,915	94,255	18,082
Mortgage-Backed Securities	—	—	1,096	392	1,096	392
Mission Related Investments	63,688	5,052	80,656	4,087	144,344	9,139
Total	\$ 162,390	\$ 6,708	\$ 2,550,735	\$ 158,334	\$ 2,713,125	\$ 165,042

	December 31, 2009					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. GNMA MBS/CMOs	\$ 186,492	\$ 1,242	\$ 1,269,486	\$ 11,716	\$ 1,455,978	\$ 12,958
U.S. Govt. Agency MBS	213,231	2,014	1,369,665	42,531	1,582,896	44,545
Non-Agency CMOs	12,042	2,395	347,984	98,444	360,026	100,839
Asset-Backed Securities	18,897	153	97,021	20,763	115,918	20,916
Mortgage-Backed Securities	—	—	9,814	539	9,814	539
Mission Related Investments	67,072	11,949	75,690	7,620	142,762	19,569
Total	\$ 497,734	\$ 17,753	\$ 3,169,660	\$ 181,613	\$ 3,667,394	\$ 199,366

On March 31, 2010, the District held certain investments having continuous unrealized loss positions greater than 12 months with a fair value totaling \$2.55 billion and an unrealized loss position totaling \$158.3 million. FASB guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary including: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, or (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the District intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the District does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The District performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes. Based on the results of all analyses, the District has recognized total other-than-temporary impairment during 2010 of \$1.9 million in connection with ABS securities and non-agency CMO securities in its portfolio, which is included in Impairment Losses on Investments in the Combined Statements of Income.

Since the District does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the other-than temporary impairment of \$1.9 million is separated into: 1) the estimated amount relating to credit loss (\$6.8 million reflected in Net Income in the Combined Statements of Income), and 2) the amount relating to all other factors (\$4.8 million reflected in other comprehensive income in the Combined Statement of Changes in Shareholders' Equity).

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

Significant inputs used in this technique to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The District obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults and the forecasted cumulative default rates used at March 31, 2010 ranged from 1 percent to 49 percent for non-agency CMO securities and from 12 percent to 70 percent for ABS securities. Prepayment rate assumptions are based on forecasted prepayments and resulted in prepayment rates that ranged from 9 percent to 16 percent for non-agency CMO securities and from 11 percent to 23 percent for ABS securities at March 31, 2010. At March 31, 2010, the loss severity rates estimated from assumptions ranged from 4 percent to 58 percent for non-agency CMO securities and from 56 percent to 100 percent for ABS securities.

For all investments other than the other-than-temporarily impaired securities discussed above, the District has not recognized any other-than-temporary impairment as the unrealized losses resulted from non-credit related factors. The District has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. government agency securities and the District expects these securities would not be settled at a price less than their amortized cost. For the three months ended March 31, 2010, net unrealized gains of \$36.6 million were recognized in other comprehensive income for temporarily impaired available-for-sale investments.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings as of March 31, 2010 and 2009:

<i>(dollars in thousands)</i>	For the three months ended March 31, 2010
Beginning balance at January 1, 2010	\$ 33,445
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	221
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	6,537
Ending balance at March 31, 2010	\$ 40,203

<i>(dollars in thousands)</i>	For the three months ended March 31, 2009
Beginning balance at January 1, 2009	\$ —
Adjustment to beginning balance due to application of investment impairment accounting change	6,991
Adjusted beginning balance at January 1, 2009	6,991
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	5,453
Ending balance at March 31, 2009	\$ 12,444

NOTE 3 — ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2010	2009
Balance at beginning of period	\$ 195,132	\$ 169,090
Provision for (reversal of) loan losses	18,192	36,927
Charge-offs	(24,559)	(53,200)
Recoveries	1,216	519
Balance at end of period	\$ 189,981	\$ 153,336

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.

The following table presents information concerning impaired loans as of March 31,

<i>(dollars in thousands)</i>	2010	2009
Impaired loans with related allowance	\$ 356,678	\$ 177,352
Impaired loans with no related allowance	485,526	500,018
Total impaired loans	\$ 842,204	\$ 677,370
Allowance on impaired loans	\$ 81,937	\$ 65,296

The following table summarizes impaired loan information for the three months ended March 31,

<i>(dollars in thousands)</i>	2010	2009
Average impaired loans	\$ 793,785	\$ 604,278
Interest income recognized on impaired loans	4,102	1,317

NOTE 4 — FAIR VALUE MEASUREMENT

Effective January 1, 2008, the District adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value, and expands the District's fair value disclosure for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. 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.

The three levels of inputs and the classification of the District's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Level 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter markets.

The District's Level 1 assets at March 31, 2010 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Level 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

The fair value of substantially all of the District's investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

The fair value of the District's derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models which use an income approach. These models incorporate benchmark interest rate curves (primarily the LIBOR swap curve), volatilities about future interest rate movements, and other inputs which are observable directly or indirectly in the marketplace. The District compares internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

The District's Level 2 assets and liabilities at March 31, 2010 include derivative contracts and investment securities in U.S. government and agency mortgage-backed securities, and U.S. agency debt securities, all of which have unadjusted values from third-party or internal pricing models. The underlying loans for these investment securities are residential mortgages. Level 2 assets also include federal funds sold, securities purchased under resale agreements and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments is generally their face value, plus accrued interest, as these instruments are highly-liquid, readily convertible to cash, and short-term in nature.

The District's Level 2 liabilities also include collateral liabilities. The majority of derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached. The market value of collateral liabilities is its face value plus accrued interest that approximates fair value.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Level 3 assets and liabilities could include investments and derivative contracts whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, and other instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets and liabilities also could include investments and derivative contracts whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at March 31, 2010 include certain loans evaluated for impairment under FASB guidance, which have fair values based upon the underlying collateral as the loans were collateral-dependent loans. Since the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan, specific reserves were established for these loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Level 3 assets at March 31, 2010 also include the Bank's mortgage-related asset-backed investment portfolio and non-agency CMO investment portfolio. The underlying loans for the asset-backed securities are home equity lines of credit, small business loans, equipment loans, or student loans. The underlying loans for the non-agency CMO securities are residential mortgages. Based on the currently illiquid marketplace for these investments and the lack of marketplace information available as inputs and assumptions to the valuation process, the Bank classified the mortgage-related asset-backed investment portfolio and non-agency CMO investment portfolio as Level 3 assets. The fair value measurement of these assets involved management's judgment and was based on multiple factors including information obtained from third-party valuation services using both Level 2 and Level 3 inputs. The significant inputs for the valuation models include yields, probability of default, loss severity, and prepayment rates.

Other property owned is classified as a Level 3 asset at March 31, 2010. The fair value for other property owned is based upon the collateral fair value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned.

Level 3 liabilities at March 31, 2010 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at March 31, 2010 and December 31, 2009 for each of the fair value hierarchy levels:

March 31, 2010				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	\$ —	\$ 4,203,381	\$ —	\$ 4,203,381
U.S. Govt. Agency MBS	—	2,324,241	—	2,324,241
Non-Agency CMOs	—	—	343,606	343,606
Commercial MBS	—	1,096	—	1,096
Asset-Backed Securities	—	25,519	39,959	65,478
Commercial paper, Bankers' Acceptances, CD's & Others	—	52,808	—	52,808
Federal funds sold, securities purchased under resale agreements, and other	—	14,394	—	14,394
Interest rate swaps and other financial instruments	—	68,158	—	68,158
Assets held in trust funds	10,508	—	—	10,508
Total Assets	\$ 10,508	\$ 6,689,597	\$ 383,565	\$ 7,083,670

Liabilities:				
Interest rate swaps and other financial instruments	\$ —	\$ —	\$ —	\$ —
Collateral liabilities	—	17,085	—	17,085
Standby letters of credit	—	—	4,925	4,925
Total Liabilities	\$ —	\$ 17,085	\$ 4,925	\$ 22,010

December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	\$ —	\$ 3,857,159	\$ —	\$ 3,857,159
U.S. Govt. Agency MBS	—	2,573,375	—	2,573,375
Non-Agency CMOs	—	—	360,026	360,026
Commercial MBS	—	9,814	—	9,814
Asset-Backed Securities	—	38,431	47,465	85,896
Commercial paper, Bankers' Acceptances, CD's & Others	—	86,690	—	86,690
Federal funds sold, securities purchased under resale agreements, and other	—	146,201	—	146,201
Interest rate swaps and other financial instruments	—	70,041	—	70,041
Assets held in trust funds	10,144	—	—	10,144
Total Assets	\$ 10,144	\$ 6,781,711	\$ 407,491	\$ 7,199,346

Liabilities:				
Interest rate swaps and other financial instruments	\$ —	\$ 229	\$ —	\$ 229
Collateral liabilities	—	14,065	—	14,065
Standby letters of credit	—	—	5,236	5,236
Total Liabilities	\$ —	\$ 14,294	\$ 5,236	\$ 19,530

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2010 and 2009. Non-agency CMO securities of the Bank were transferred from level 2 to level 3 assets effective March 31, 2009 as the Bank began adjusting the valuation obtained from a third party pricing service for this portfolio to reflect, in part, the valuation obtained from a cash flow modeling process. Total credit losses of \$1.4 million were included in earnings for the first quarter of 2009 for non-agency CMOs determined to be other-than-temporarily impaired by the Bank. The District had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first three months of 2010 and 2009.

	Asset- Backed Investment Securities	Non- Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2010	\$ 47,465	\$ 360,027	\$ 5,236
Total gains or (losses) realized/unrealized:			
Included in earnings	(4,801)	(1,957)	—
Included in other comprehensive loss	2,697	7,570	—
Purchases, sales, issuances and settlements, net	(5,402)	(22,034)	(311)
Transfers in and/or out of level 3	—	—	—
Balance at March 31, 2010	\$ 39,959	\$ 343,606	\$ 4,925

	Asset- Backed Investment Securities	Non- Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2009	\$ 79,961	\$ —	\$ 5,262
Total gains or (losses) realized/unrealized:			
Included in earnings	(4,009)	—	—
Included in other comprehensive loss	5,651	—	—
Purchases, sales, issuances and settlements, net	(13,304)	—	(36)
Transfers in and/or out of level 3	—	397,320	—
Balance at March 31, 2009	\$ 68,299	\$ 397,320	\$ 5,226

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

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2010 and December 31, 2009 for each of the fair value hierarchy values are summarized below:

March 31, 2010						
	Level 1	Level 2	Level 3	Total Fair Value	Total Gains (Losses)	
Assets:						
Impaired loans	\$ —	\$ —	\$ 181,522	\$ 181,522	\$ (13,734)	
Other property owned	—	—	22,391	22,391	(974)	
December 31, 2009						
	Level 1	Level 2	Level 3	Total Fair Value	Total Gains (Losses)	
Assets:						
Impaired loans	\$ —	\$ —	\$ 292,624	\$ 292,624	\$ (144,942)	
Other property owned	—	—	79,237	79,237	(5,515)	

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the District's financial instruments at March 31, 2010 and December 31, 2009.

Quoted market prices are generally not available for certain Systemwide financial instruments, 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.

<i>(dollars in thousands)</i>	March 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Loans, net of allowance	\$ 22,642,647	\$ 22,939,123	\$ 23,013,057	\$ 23,280,763
Derivative assets	61,158	61,158	70,041	70,041
Cash & cash equivalents	931,152	931,152	981,041	981,041
Investment securities	8,416,518	8,462,923	8,442,230	8,472,095
Other investments	291,822	315,171	367,461	391,103
Assets held in trust funds	10,508	10,508	10,144	10,144
Financial liabilities:				
Bonds and notes	\$ 28,211,222	\$ 28,286,543	\$ 28,894,013	\$ 28,913,520
Derivative liabilities	—	—	229	229

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

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

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

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

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

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

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

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

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

NOTE 6 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each Farm Credit System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the banks are jointly and severally liable for the bonds and notes of the other Farm Credit System banks. The bonds and notes of the System totaled \$174.605 billion at March 31, 2010.

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

NOTE 7 — EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31,	
<i>(dollars in thousands)</i>	2010	2009
Pension	\$ 12,044	\$ 14,049
401k	1,499	1,501
Other postretirement benefits	2,145	2,165
Total	<u>\$ 15,688</u>	<u>\$ 17,715</u>

The following is a table of retirement and other postretirement benefit contributions for the District. Projections are based upon actuarially determined amounts as of the most recent measurement date of December 31, 2009.

<i>(dollars in thousands)</i>	Actual YTD Through 3/31/10	Projected Contributions for Remainder Of 2010	Projected Total Contributions 2010
Pensions	\$ 124	\$45,082	\$45,206
Other postretirement benefits	1,528	4,869	6,397
Total	<u>\$1,652</u>	<u>\$49,951</u>	<u>\$51,603</u>

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the District participates. These amounts may change when a total funding amount and allocation is determined by the respective Plans' Sponsor Committees. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2010.

Further details regarding employee benefit plans are contained in the 2009 Annual Report to Shareholders.

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2009, the District adopted FASB guidance, “Disclosures about Derivative Instruments and Hedging Activities,” which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required.

The District maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to lower cost of funding or to reduce interest rate risk. The District’s goal is to manage interest rate sensitivity by modifying the repricing characteristics of certain balance sheet assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. As a result of interest rate fluctuations, interest income and interest expense related to hedged variable-rate assets and liabilities, respectively, will increase or decrease. Another result of interest rate fluctuations is that hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effects of any earnings variability or unrealized changes in market value are expected to be substantially offset by the District’s gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The District considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The District enters into derivatives, particularly interest rate swaps, to lower funding costs, to allow it to diversify sources of funding, or to alter interest rate exposures arising from mismatches between assets and liabilities. Interest rate swaps enable the District to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the District if floating rate borrowings were made directly. Under interest rate swap arrangements, the District agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index. The District may also purchase interest rate derivatives such as caps in order to reduce the impact of rising interest rates on its floating-rate debt and floors in order to reduce the impact of falling interest rates on its floating-rate assets.

The primary type of derivative instrument used and the amount of activity for the year ended March 31, 2010 is summarized in the following table:

(dollars in millions)	Receive- Fixed Swaps
Balance at beginning of period	\$ 1,373
Additions	50
Maturities/amortization	—
Terminations	—
Balance at end of period	<u>\$ 1,423</u>

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

To minimize the risk of credit losses, the District deals with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of and levels of exposure to individual counterparties. The estimated gross credit risk exposure at March 31, 2010 of \$68.2 million was with eight counterparties and represented approximately 4.79 percent of the total notional amount of interest rate swaps. The District held \$17.1 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The District does not anticipate nonperformance by any of these counterparties. The estimated gross credit risk exposure at December 31, 2009 of \$70.0 million was with eight counterparties and represented approximately 5.08 percent of the total notional amount of interest

rate swaps. The District held \$14.1 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The District typically enters into master agreements that contain netting provisions. These provisions allow the District to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties. At March 31, 2010, the District had not posted collateral with respect to these arrangements.

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

Fair-Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss 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 District includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the gain on interest rate swaps recognized in interest expense for the three months ended March 31, 2010 was \$1.9 million, while the amount of the loss on the Systemwide Debt Securities was (\$1.9) million. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

<i>(dollars in thousands)</i>	Balance Sheet Classification – Assets	3/31/10 Fair Value	Balance Sheet Classification – Liabilities	3/31/10 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	\$ 68,158	Other Liabilities	\$ –
Total		\$ 68,158		\$ –

The District had no gain or loss on derivatives recognized in the Combined Statements of Income for the three months ended March 31, 2010.

NOTE 9 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data

<i>(dollars in thousands)</i>	3/31/10	12/31/09
	<i>(unaudited)</i>	<i>(audited)</i>
Cash, cash equivalents and investment securities	\$ 9,125,279	\$ 9,165,093
Loans	20,648,639	21,327,319
Less: allowance for loan losses	26,989	32,292
Net loans	20,621,650	21,295,027
Other assets	364,788	407,424
Total assets	<u>\$ 30,111,717</u>	<u>\$ 30,867,544</u>
Bonds and notes	\$ 28,011,222	\$ 28,694,013
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	142,520	368,201
Total liabilities	<u>28,378,742</u>	<u>29,287,214</u>
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	433,856	438,707
Retained earnings	981,317	864,827
Accumulated other comprehensive income (loss)	(82,198)	(123,204)
Total shareholders' equity	<u>1,732,975</u>	<u>1,580,330</u>
Total liabilities and equity	<u>\$ 30,111,717</u>	<u>\$ 30,867,544</u>

Statement of Income Data

	For the three months ended March 31,	
<i>(dollars in thousands)</i>	2010	2009
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest income	\$ 243,770	\$ 267,868
Interest expense	103,416	160,321
Net interest income	140,354	107,547
Provision for (reversal of) loan losses	4,430	16,701
Net interest income after provision for loan losses	135,924	90,846
Noninterest expense, net	(19,324)	(38,332)
Net income	<u>\$ 116,600</u>	<u>\$ 52,514</u>

NOTE 9 — REGULATORY ENFORCEMENT MATTERS

During 2010, the FCA has entered into written supervisory agreements with two District Associations whose combined assets totaled less than \$900.0 million at March 31, 2010. The written supervisory agreements require those District Associations to take corrective actions with respect to certain areas of their operations, including capital, portfolio management, and asset quality. These enforcement actions will not have a significant impact on the Bank's or District's financial condition or results of operations. The FCA has taken no other enforcement actions against the Bank or other District Associations during 2010.

NOTE 10 — SUBSEQUENT EVENTS

The District has evaluated subsequent events and has determined there are none requiring disclosure through May 7, 2010, which is the date the financial statements were issued.