



AgFIRST FARM CREDIT BANK

Quarterly Report

Second Quarter 2011

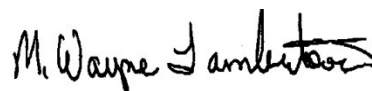
SECOND QUARTER 2011

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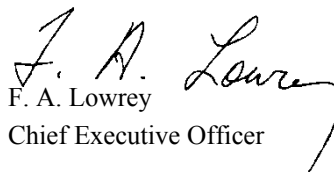
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CERTIFICATION

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



M. Wayne Lambertson
Chairman of the Board



F. A. Lowrey
Chief Executive Officer



Charl L. Butler
Chief Financial Officer

August 9, 2011

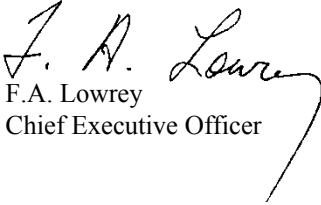
Report on Internal Control Over Financial Reporting


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

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

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

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


F.A. Lowrey
Chief Executive Officer


Charl L. Butler
Chief Financial Officer

August 9, 2011

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

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

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

FORWARD-LOOKING INFORMATION

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

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

FINANCIAL CONDITION

Loan Portfolio

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

AgFirst Loan Portfolio <i>(dollars in thousands)</i>	June 30, 2011		December 31, 2010		June 30, 2010	
Direct Notes	\$ 14,552,923	70.71%	\$ 14,778,448	70.69%	\$ 14,555,600	70.23%
Participations/Syndications purchased, net	3,925,227	19.07	4,163,794	19.92	4,349,675	20.98
Correspondent Lending	2,085,806	10.14	1,957,923	9.37	1,805,367	8.71
Loans to OFIs	16,000	0.08	5,000	0.02	16,000	0.08
Total	\$20,579,956	100.00%	\$20,905,165	100.00%	\$ 20,726,642	100.00%

Total loans outstanding were \$20.580 billion at June 30, 2011, a decrease of \$325.2 million, or 1.56 percent, compared to total loans outstanding at December 31, 2010. The decline in total loans outstanding since 2010 year end is primarily due to Bank patronage payments to Associations which were applied to the Association Direct Notes of approximately \$188.3 million at the beginning of 2011 and \$10.0 million at the end of the second quarter 2011. The resolution of adversely classified loans has impacted loan volume as loans are charged down to their fair value when transitioned to nonaccrual status, liquidated through voluntary or foreclosure sales, or moved to other property owned. Reduced loan demand from the continued relative weakness in the general economy is also a reason for the decline in loan volume.

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

Credit Quality

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

AgFirst Total Loan Portfolio Credit Quality as of:			
Classification	June 30, 2011	December 31, 2010	June 30, 2010
Acceptable	86.35%	85.21%	87.34%
OAEM *	10.59%	10.00%	9.40%
Substandard	3.06%	4.79%	3.26%
Doubtful	0.00%	0.00%	0.00%

**Other Assets Especially Mentioned*

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

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

The livestock industries returned to profitability over the last year after a period of stress. Profitability was primarily achieved through lower production costs and reduction of oversupply which led to higher prices. Higher grain and energy costs in the livestock industry in 2011 have been offset by higher meat prices for both beef and swine producers. Many poultry integrators are experiencing losses in 2011 due to oversupply, which resulted in lower prices, as well as higher input prices. Margins also remain tight for dairy processors and ethanol producers due to increased input costs, especially high corn prices. The future volatility of grain prices remains a primary concern to the meat and ethanol sectors.

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

Conditions discussed above affected the credit quality of the Bank's participation/syndication loan portfolio directly. They also affected the credit quality of loan portfolios and earnings performance of the individual District Associations, which in turn is reflected in the quality of the Bank's Direct Notes. Although credit quality is generally stabilizing, it will take time to fully resolve some problem assets due to their dependency on a recovery in the housing market and real estate values.

Direct Notes

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

At June 30, 2011, the total principal amount outstanding under Direct Notes was \$14.553 billion, a decrease of \$225.5 million, or 1.53 percent, compared to December 31, 2010. As previously mentioned, Bank patronage payments, problem asset resolution, and the relatively weak economy were the primary reasons for the decline in Direct Note growth.

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

Direct Note Credit Quality as of:			
Classification	June 30, 2011	December 31, 2010	June 30, 2010
Acceptable	85.28%	83.96%	87.05%
OAEM *	12.59%	11.28%	10.67%
Substandard	2.13%	4.76%	2.28%
Doubtful	0.00%	0.00%	0.00%

**Other Assets Especially Mentioned*

As of June 30, 2011, fourteen of the twenty District Associations' Direct Notes, representing 85.28 percent of the Direct Note portfolio, were classified acceptable. Five of the remaining Direct Notes, representing 12.59 percent of the portfolio, were classified as Other Assets Especially Mentioned (OAEM) and one of the Direct Notes, representing 2.13 percent of the portfolio, was classified as substandard (adverse).

None of the Direct Notes are considered impaired. As of June 30, 2011, five Associations were in violation of covenants under the GFA. The Bank approved temporary waivers of the defaults and allowed these Associations to operate under issued or pending special credit agreements (SCAs) pursuant to their respective GFAs.

All assets of the various Associations are pledged as collateral for their respective Direct Notes. The risk funds of an Association, including both capital and the allowance for loan losses, protect the interest of the Bank should a Direct Note default. In the opinion of management, all Association Direct Notes are adequately collateralized. Presently, collection of the full amounts due are expected in accordance with the contractual terms of the debt arrangements.

Participations/Syndications

AgFirst maintains a participations/syndications portfolio, which consists primarily of commercial agricultural and agribusiness loans. As of June 30, 2011, the participations/syndications portfolio totaled \$3.925 billion. The size of this portfolio decreased \$238.6 million, or 5.73 percent, from December 31, 2010 to June 30, 2011. As with the Direct Notes, borrower demand in this portfolio is anticipated to remain weak through the remainder of 2011.

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

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

Participations/Syndications Credit Quality as of:			
Classification	June 30, 2011	December 31, 2010	June 30, 2010
Acceptable	83.19%	82.81%	83.21%
OAEM *	8.71%	10.07%	9.03%
Substandard	8.09%	7.12%	7.76%
Doubtful	0.01%	0.00%	0.00%

**Other Assets Especially Mentioned*

Correspondent Lending

AgFirst also maintains a correspondent lending portfolio, which consists primarily of first lien residential mortgages. As of June 30, 2011, the correspondent lending portfolio totaled \$2.086 billion. From December 31, 2010 to June 30, 2011, this portfolio increased \$127.9 million, or 6.53 percent. The increase in volume of this portfolio continued to be influenced by refinancing activity generated by the low interest rate environment.

Essentially all loans in the correspondent lending portfolio are guaranteed by the Federal National Mortgage Association (Fannie Mae) and/or the Federal Agricultural Mortgage Corporation (Farmer Mac), thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par. At June 30, 2011, 99.79 percent of the correspondent lending portfolio was classified as Acceptable and 0.21 percent was classified as OAEM.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank at June 30, 2011, were \$166.7 million compared to \$115.7 million at December 31, 2010. Nonaccrual loans increased \$51.0 million primarily due to \$91.7 million of loan balances transferred to nonaccrual status during the six months ended June 30, 2011. Offsetting this increase were repayments of \$16.9 million, charge-offs of uncollectible balances of \$12.1 million, transfers to other property owned of \$7.0 million, and reinstatements to accrual status of \$5.4 million. The ten largest nonaccrual borrower relationships accounted for 68.03 percent of the total nonaccrual balance. At June 30,

2011, total nonaccrual loans were primarily in the forestry (33.47 percent of the total), processing (22.43 percent), other real estate (15.33 percent), and cattle (14.02 percent) segments. Some of these nonaccrual loans are secured by real estate, which has been negatively impacted by the current economic environment as discussed previously. Nonaccrual loans were 0.81 percent of total loans outstanding at June 30, 2011.

Troubled Debt Restructurings

A troubled debt restructuring occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms or rates or a compromise of amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by both the lender and the borrower. Troubled debt restructurings totaled \$78.1 million at June 30, 2011 compared to \$66.0 million at December 31, 2010. At June 30, 2011, troubled debt restructurings were comprised of \$39.4 million of accruing restructured loans and \$38.8 million of nonaccruing restructured loans. Restructured loans were primarily in the swine (35.90 percent of the total), processing (26.20 percent), and forestry (22.04 percent) segments.

Other Property Owned

Other property owned (OPO) consists of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased \$11.4 million during the first six months of 2011 and totaled \$28.3 million at June 30, 2011. The decrease was due primarily to OPO disposals of \$11.1 million and OPO write-downs of \$7.1 million. Disposals included two land holdings of \$7.9 million and a vineyard and winery holding of \$2.4 million. Write-downs were comprised primarily of one land holding write-down of \$4.2 million. Offsetting these decreases were transfers to OPO of \$7.0 million, which is composed primarily of transfers of the vineyard and winery holding of \$3.1 million and three other land holdings of \$2.6 million. The largest OPO holding at June 30, 2011, which consisted of several parcels of land, was \$12.5 million (44.20 percent of the total).

Allowance for Loan Losses

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was \$33.3 million at June 30, 2011, as compared with \$14.9 million at December 31, 2010. The increase during the six months ended June 30, 2011 of \$18.4 million was primarily due to provision expense of \$30.3 million, offset by loan charge-offs of \$12.0 million as their uncollectability became more measurable and apparent during the six month period. Charge-offs were related primarily to two borrowers in the ethanol segment (\$8.3 million) and one borrower in the cattle segment (\$1.4 million). The allowance at June 30, 2011 included specific reserves of \$10.0 million (30.14 percent of the total) and general reserves of \$23.3 million (69.86 percent). All of the general reserves are attributed to participation loans. The total allowance at June 30, 2011 was comprised primarily of reserves for forestry (24.21 percent), cattle (14.83 percent), processing (14.54 percent), and other real estate (14.04 percent) segments. Declining real estate values impacted charge-offs and reserves in several of these loan segments. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding increases to the allowance from provision expense.

Liquidity and Funding Sources

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

At June 30, 2011, AgFirst had \$27.632 billion in total debt outstanding compared to \$28.326 billion at December 31, 2010. In addition, other interest-bearing liabilities for AgFirst included \$225.0 million in Mandatorily Redeemable Preferred Stock in both periods. Total interest-bearing liabilities decreased primarily due to the decrease in loan volume as discussed in this report which reduced funding requirements.

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

Cash and cash equivalents, which decreased \$221.9 million from December 31, 2010 to a total of \$1.205 billion at June 30, 2011, consist primarily of cash on deposit and money market securities that are short term in nature (from overnight maturities to maturities that range up to 90 days). Money market securities must carry one of the two highest short-term ratings as designated from a Nationally Recognized Statistical Rating Organization (NRSRO). The decrease in cash and cash equivalents was due primarily to the lesser amount of cash needed to maintain 15 days of liquidity coverage on maturing debt at June 30, 2011 compared to December 31, 2010.

Investment securities totaled \$8.026 billion, or 26.66 percent of total assets at June 30, 2011, compared to \$8.077 billion, or 26.24 percent, as of December 31, 2010. Investment securities decreased \$50.9 million (0.63 percent), compared to December 31, 2010, as management maintained the investment securities portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

Investment securities classified as being held-to-maturity totaled \$953.2 million at June 30, 2011. These held-to-maturity investments were primarily Rural Housing Mortgage-Backed Securities purchased under a Mission Related Investment pilot program approved by the FCA in 2005.

Investment securities classified as being available-for-sale totaled \$7.073 billion at June 30, 2011. Available-for-sale investments at June 30, 2011 included \$5.136 billion in Government National Mortgage Association (GNMA) securities backed by the full faith and credit of the U.S. Government, \$1.648 billion in Agency mortgage backed securities, \$259.3 million in non-agency collateralized mortgage obligations (CMOs), and \$29.5 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.

As of June 30, 2011, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require a liquidity policy that establishes a minimum "coverage" level of 90 days. "Coverage" is defined as the number of days that maturing debt could be funded through the sale of eligible available-for-sale investments and cash and cash equivalents maintained by the Bank. At both June 30, 2011 and December 31, 2010, AgFirst's coverage was 208 days. At June 30, 2011, the Bank's cash and cash equivalents position provided 20 days coverage (Bank policy minimum is 15 days) and investment securities fully backed by the U.S. government provided an additional 186 days of coverage. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation of 208 days.

The FCA considers an asset-backed or mortgage-backed investment security ineligible if it falls below the top category (AAA/Aaa) credit rating by the NRSROs. The FCA requires System institutions to divest of such an investment unless the FCA grants specific approval to continue to hold an ineligible security. For each of the investment securities in the Bank's portfolio at June 30, 2011 rated below AAA/Aaa (total fair value of \$210.5 million and amortized cost of \$257.9 million), the Bank has developed and submitted plans for approval by the FCA that provide that the Bank may continue to hold the securities. The FCA has approved, with conditions, the Bank's plans for all but one investment that has recently become ineligible. The Bank is in the process of submitting the plan to obtain approval from the FCA to hold this one investment. Management is of the opinion that holding these securities will result in a higher return for the Bank than selling them in the current illiquid market. Based on the Bank's analysis, no other-than-temporary credit related impairment was recognized in 2011 on this recently ineligible security.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain Bank ineligible securities are risk weighted between 50 percent and 200 percent instead of the standard 20 percent. These ineligible securities had a fair value of \$104.0 million and amortized cost of \$128.3 million. Other ineligible securities must be deducted completely from both capital and risk adjusted assets, based on the extent of their below investment grade rating from NRSROs. These securities had a fair value of \$55.3 million and amortized cost of \$68.0 million at June 30, 2011. The fair value and amortized cost amount of ineligible non-agency reperformer CMO securities covered by Federal Housing Administration insurance and therefore risk weighted at the standard 20 percent, was \$51.2 million and \$61.6 million, respectively, at June 30, 2011. See the *Capital Resources* section below for further discussion of the regulatory ratios. In addition, all ineligible investments, except non-agency reperformer CMOs which meet certain conditions, are excluded from liquidity coverage as defined above.

Net unrealized gains related to the available-for-sale securities were \$90.2 million at June 30, 2011, compared to total net unrealized gains of \$43.7 million at December 31, 2010. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors, such as the current interest rate environment.

The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Additional analysis for each security not rated in the top category by the NRSROs is performed using a cash flow model with key assumptions and performance factors which may include credit default rate, prepayment rate, and loss severity. The objective is to quantify future possible loss of principal or interest due on each identified security. The credit enhancements specific to the individual security are considered as appropriate, and may include monoline credit insurance, subordination, over-collateralization, and excess interest spread. Asset-backed securities covered by insurers are analyzed with insurance and without, to quantify the extent of reliance on their guarantee. Based on the results of all analyses, the Bank recognized other-than-temporary credit related impairment of \$8.1 million on asset-backed securities and non-agency CMOs in its portfolio for the six months ended June 30, 2011, which was included in Net Other-Than-Temporary Impairment Losses on Investments in the Statements of Income. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis. Payment shortfalls, net of insurance recoveries, on asset-backed securities have totaled only \$14.6 million life to date (\$4.0 million in 2011), compared to total other-than-temporary credit related impairment charges life to date of \$39.5 million (\$3.6 million in 2011). Total other-than-temporary credit related impairment charges on non-agency CMOs have totaled \$13.7 million life to date (\$4.5 million in 2011). There have been no payment shortfalls on non-agency CMOs. See Note 2, *Investment Securities*, in the Notes to the Financial Statements for further information.

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

U.S. Fiscal Situation and Credit Rating Impact on Funding

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

Prior to August 2011, the NRSROs changed their outlook assigned to the debt securities of the U.S. Government to negative while maintaining the short and long-term ratings for these securities, which were the highest ratings as designated by the NRSROs. The NRSROs indicated that depending upon the actions of Congress and the Administration with respect to the government debt ceiling and budget, it was possible that the long-term sovereign credit rating of the U.S. could be downgraded. On August 5, 2011, one of the NRSROs, citing continuing concerns over the degree of uncertainty around the political policy process and the underlying debt burden of the U.S. Government, downgraded the long-term credit rating of U.S. Government (sovereign) debt one level to AA+ from the highest rating of AAA, while leaving the short-term credit rating unchanged. As a consequence of this downgrade action, on August 8, 2011, the same NRSRO downgraded the long-term credit rating of System debt due to the implied link between the credit rating of the System and the U.S. Government given the System's status as a GSE. Other GSEs were also concurrently downgraded by this NRSRO. The short-term credit rating of the System was not changed. A reduction in the System's credit rating may increase borrowing costs and may limit access to the capital markets, reducing the flexibility to issue debt across the full spectrum of the yield curve. Notwithstanding the recent credit rating downgrade and outlook changes, to date, the System has continued to have access to funding at competitive rates and terms necessary to support the lending and business operations of the System. The Bank anticipates continued access to funding through the issuance of Farm Credit System debt.

Capital Resources

Total shareholders' equity increased \$228.3 million (12.00 percent) from December 31, 2010 to a total of \$2.131 billion at June 30, 2011. This increase is primarily attributed to 2011 unallocated retained earnings from net income of \$208.0 million, increases of \$46.5 million in net unrealized gains during 2011 on investments available-for-sale, a component of AOCI, and a change in the fair value of derivatives of \$2.1 million. Offsetting the increases was a dividend payment of \$13.7 million on perpetual preferred stock and capital stock retirements of \$4.7 million. The Bank also declared and distributed to District Associations \$10.0 million of cash patronage in June 2011.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios (see below). The FCA notified AgFirst that the June 2007 issuance of \$250.0 million of Perpetual Non-Cumulative Subordinated Preferred Stock (as discussed above) could be included in core surplus up to an amount not to exceed 25.00 percent of total core surplus, inclusive of the preferred stock component. Based on this regulatory guidance, applied to the core surplus ratio at June 30, 2011, all of the \$250.0 million in preferred stock has been included. Also in conjunction with AgFirst's issuance of Class A-1 Mandatorily Redeemable Preferred Stock in 2001, FCA now requires AgFirst to maintain a minimum net collateral ratio of 104.00 percent compared to the System regulatory minimum of 103.00 percent. Unlike the permanent capital, total surplus and core surplus ratios, the net collateral ratio does not incorporate any risk-adjusted weighting of assets. The collateral ratio is calculated by dividing the Bank's collateral, as defined by FCA regulations, by total liabilities

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

	Regulatory Minimum	6/30/11	12/31/10	6/30/10
Permanent Capital Ratio	7.00%	22.32%	21.22%	18.80%
Total Surplus Ratio	7.00%	22.29%	21.19%	18.76%
Core Surplus Ratio	3.50%	14.68%	13.79%	11.60%
Net Collateral Ratio	104.00%	107.43%	106.44%	106.55%

The Bank's permanent capital, total surplus, and core surplus ratios increased at June 30, 2011 as compared to December 31, 2010 due to increased permanent capital and decreased assets. These ratios are calculated using three month average daily balances for both capital and assets. The temporary net gains in AOCI, as discussed above, do not affect the reported capital ratios because the effect of AOCI is excluded entirely from the risk-based capital ratios.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2011 was \$208.0 million, compared to \$206.7 million at June 30, 2010, an increase of \$1.3 million, or 0.65 percent.

Key results of operations comparisons

	Annualized for the six months ended June 30, 2011	For the year ended December 31, 2010	Annualized for the six months ended June 30, 2010
Return on average assets	1.40%	1.37%	1.37%
Return on average shareholders' equity	26.06%	22.25%	31.31%
Net interest income as a percentage of average earning assets	2.05%	1.96%	1.94%
Net (charge-offs) recoveries to average loans	(0.116)%	(0.276)%	(0.110)%

Net Interest Income

Net interest income for the three months ended June 30, 2011 was \$147.6 million compared to \$140.3 million for the same period of 2010, an increase of \$7.3 million or 5.22 percent. For the six months ended June 30, 2011, net interest income was \$291.6 million, compared to \$280.6 million for the six months ended June 30, 2010, an increase of \$10.9 million, or 3.89 percent. The net interest margin was 2.06 percent and 2.05 percent in the current year three and six month periods respectively, an improvement of 13 basis points and 11 basis points over the same periods of 2010. Spreads improved for several reasons, but primarily resulted from called debt being replaced by new debt issued at lower interest rates, decreasing funding costs. Change in net interest income due to the change in balance sheet volume was minimal as a result of decreased loan demand previously discussed. Prospectively, as assets reprice in the lower interest rate environment, spreads and margins will narrow, which can negatively affect net interest income.

The following table illustrates the changes in net interest income:

	For the three months ended June 30, 2011 vs. June 30, 2010			For the six months ended June 30, 2011 vs. June 30, 2010		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Rate	Total	Volume	Rate	Total
<i>(dollars in thousands)</i>						
Interest Income:						
Loans	\$ (1,608)	\$ (16,399)	\$ (18,007)	\$ (4,519)	\$ (32,884)	\$ (37,403)
Investments & Cash Equivalents	(1,334)	2,683	1,349	(2,904)	4,644	1,740
Total Interest Income	\$ (2,942)	\$ (13,716)	\$ (16,658)	\$ (7,423)	\$ (28,240)	\$ (35,663)
Interest Expense:						
Interest-Bearing Liabilities	\$ (2,939)	\$ (21,038)	\$ (23,977)	\$ (6,084)	\$ (40,493)	\$ (46,577)
Changes in Net Interest Income	\$ (3)	\$ 7,322	\$ 7,319	\$ (1,339)	\$ 12,253	\$ 10,914

Provision for Loan Losses

AgFirst measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. The provision for loan losses was \$19.4 million and \$30.3 million for the three and six month periods ended June 30, 2011, compared to \$18.1 million and \$22.5 million for the same periods in 2010. Provision for loan loss expense for the three months ended June 30, 2011 consisted of \$13.4 million related to reserves for specific credits and \$6.0 million related to general reserves. The \$30.3 million in provision for loan loss expense for the six months ended June 30, 2011 consisted of \$17.4 million related to reserves for specific credits and \$12.9 million related to general reserves. Provision expense for

the three months ended June 30, 2011 primarily related to borrowers in the forestry (29.77 percent of the provision expense total), ethanol (13.89 percent), processing (18.17 percent), and cattle (15.24 percent) segments. Provision expense for the six months ended June 30, 2011 primarily related to borrowers in the forestry (21.43 percent of the provision expense total), cattle (20.10 percent), other real estate (13.32 percent), and processing (12.36 percent) segments.

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

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	For the three months ended June 30,			For the six months ended June 30,		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
<i>(dollars in thousands)</i>						
Loan fees	\$ 3,402	\$ 3,320	\$ 82	\$ 6,555	\$ 6,382	\$ 173
Gains (losses) from other property owned, net	664	183	481	(5,116)	652	(5,768)
Gains (losses) on investments, net	3,048	—	3,048	3,048	1,568	1,480
Net impairment losses on investments	(3,652)	(3,227)	(425)	(8,110)	(9,985)	1,875
Gains (losses) on sale of rural home loans, net	—	—	—	(86)	(112)	26
Patronage refunds from other Farm Credit Institutions	(39)	(43)	4	95	265	(170)
Insurance premium refund	—	—	—	—	10,440	(10,440)
Other noninterest income	1,020	888	132	2,557	1,597	960
Total noninterest income	\$ 4,443	\$ 1,121	\$ 3,322	\$ (1,057)	\$ 10,807	\$ (11,864)

The increase of total noninterest income of \$3.3 million for the three months ended June 30, 2011 compared to the three months ended June 30, 2010 was due primarily to \$3.0 million in gains recorded on the sales of investment securities in April 2011. These sales were the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio. Net gains from other property owned for the three months ended June 30, 2011 included the recognition of a previously deferred \$2.3 million gain from an ethanol plant sale in accordance with accounting guidance.

The decrease of total noninterest income of \$11.9 million for the six months ended June 30, 2011 compared to the six months ended June 30, 2010 was due primarily to the Bank's recording \$10.4 million of insurance premium refunds during the first quarter of 2010 from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. No refunds were received during the first half of 2011.

The decrease in total noninterest income was also due to \$5.1 million in losses from other property owned for the six month period ended June 30, 2011, compared to \$652 thousand in gains for the six month period ended June 30, 2010. See discussion in *Other Property Owned* section above.

Offsetting the decrease in noninterest income were increases of \$1.5 million in gains on the sales of investment securities for the six months ended June 30, 2011. Sales in both periods were the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio as mentioned above.

There was a decrease of \$1.9 million in the recognition of credit related other-than-temporary impairment on several of the Bank's investment securities for the six months ended June 30, 2011 as compared to the same period in 2010 which also offset the decreases to noninterest income. See discussion of 2011 credit related other-than-temporary impairment above.

Other noninterest income improved \$960 thousand primarily due to a system captive insurance company allocated loss based on claims experience that was reflected in other noninterest income in 2010.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	For the three months ended June 30,			For the six months ended June 30,		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
<i>(dollars in thousands)</i>						
Salaries and employee benefits	\$ 10,694	\$ 10,063	\$ 631	\$ 21,762	\$ 19,908	\$ 1,854
Occupancy and equipment	3,200	3,758	(558)	6,652	7,298	(646)
Insurance Fund premiums	1,328	21	1,307	2,692	2,727	(35)
Other operating expenses	5,674	4,950	724	10,660	10,069	591
Called debt expense	4,416	12,321	(7,905)	5,859	18,106	(12,247)
Correspondent lending servicing expense	2,222	2,112	110	4,487	4,057	430
Other noninterest expense	35	69	(34)	105	139	(34)
Total noninterest expense	\$ 27,569	\$ 33,294	\$ (5,725)	\$ 52,217	\$ 62,304	\$ (10,087)

Noninterest expense for the three months ended June 30, 2011 was \$27.6 million, which reflected a decrease of \$5.7 million compared to the corresponding period in 2010. The decrease for the three month period was due primarily to the decrease in called debt expense, offset by the increase in FCSIC premiums. For the six months ended June 30, 2011, noninterest expense was \$52.2 million, which reflected a decrease of \$10.1 million compared to the corresponding period in 2010. The decrease of \$10.1 million for the six month period was due primarily to the decrease in called debt expense, offset by an increase of \$1.9 million in salaries and employee benefits.

FCSIC premiums increased \$1.3 million and decreased \$35 thousand for the three and six month periods due primarily to a change in the premium rate charged. The 2011 base annual premium rate is 6 basis points. In June 2010, the base annual premium rate was reduced from 10 basis points to 5 basis points retroactive to January 1, 2010. The retroactive adjustment was completely reflected in June 2010.

Concession or debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized concession is expensed. Called debt expense decreased \$7.9 million (64.16 percent) for the three month period and \$12.2 million (67.64 percent) for the six month period. Call options were exercised on bonds totaling \$6.831 billion for the six months ended June 30, 2011 compared to \$12.779 billion for the same period of 2010. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

Correspondent lending service expense increased \$110 thousand (5.21 percent) for the three month period and \$430 thousand (10.60 percent) for the six months period ended June 30, 2011. These increases were related primarily to increased agency guarantee fees resulting from higher volume in the correspondent lending portfolio.

Occupancy and equipment expense for the three months and six months ended June 30, 2011 decreased \$558 thousand and \$646 thousand, respectively. These decreases were due primarily to the end of depreciation expense on several capitalized projects which fully depreciated in January 2011.

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

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

REGULATORY MATTERS

The FCA entered into written supervisory agreements with two District Associations in 2010 and one additional District Association during 2011. During 2011, the FCA also entered into a new written supervisory agreement with one District Association, replacing its prior written supervisory agreement issued in 2010. The combined assets of these three Associations totaled less than \$965.0 million at June 30, 2011. The written supervisory agreements require those District Associations to take corrective actions with respect to certain areas of their operations, including capital, portfolio management, and asset quality. These enforcement actions are not expected to have a significant impact on the Bank's or District's financial condition or results of operations. While the FCA has not taken any other enforcement actions against the Bank or other District Associations during 2011, three additional District Associations were subject to special supervision by the FCA at June 30, 2011, subjecting them to additional regulatory scrutiny.

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

Financial Regulatory Reform

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

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

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

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

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

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

DISTRICT MERGER ACTIVITY

Please refer to Note 9, *District Merger Activity*, in the Notes to the Financial Statements for information regarding merger activity in the District.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2011 <i>(unaudited)</i>	December 31, 2010 <i>(audited)</i>
Assets		
Cash and cash equivalents	\$ 1,205,091	\$ 1,427,033
Investment securities:		
Available for sale (amortized cost of \$6,982,334 and \$6,980,661 respectively)	7,072,563	7,024,364
Held to maturity (fair value of \$1,019,663 and \$1,114,064 respectively)	953,216	1,052,314
Total investment securities	8,025,779	8,076,678
Loans	20,579,956	20,905,165
Less: allowance for loan losses	33,301	14,873
Net loans	20,546,655	20,890,292
Accrued interest receivable	81,798	84,692
Investments in other Farm Credit System institutions	65,154	65,300
Premises and equipment, net	11,382	11,361
Other property owned	28,310	39,719
Due from associations	10,874	20,550
Other assets	131,181	165,941
Total assets	\$ 30,106,224	\$ 30,781,566
Liabilities		
Bonds and notes	\$ 27,631,638	\$ 28,325,569
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividends payable	53,124	57,816
Patronage distribution payable	—	190,543
Other liabilities	65,410	79,857
Total liabilities	27,975,172	28,878,785
Commitments and contingencies (Note 6)		
Shareholders' Equity		
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	412,638	417,333
Retained earnings		
Allocated	859	871
Unallocated	1,236,613	1,052,248
Accumulated other comprehensive income (loss)	80,942	32,329
Total shareholders' equity	2,131,052	1,902,781
Total liabilities and equity	\$ 30,106,224	\$ 30,781,566

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

Statements of Income

(unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
<i>(dollars in thousands)</i>				
Interest Income				
Investment securities and other	\$ 49,655	\$ 48,306	\$ 98,626	\$ 96,886
Loans	175,651	193,658	351,445	388,848
Total interest income	225,306	241,964	450,071	485,734
Interest Expense	77,695	101,672	158,511	205,088
Net interest income	147,611	140,292	291,560	280,646
Provision for loan losses	19,380	18,052	30,276	22,482
Net interest income after provision for loan losses	128,231	122,240	261,284	258,164
Noninterest Income				
Loan fees	3,402	3,320	6,555	6,382
Gains (losses) from other property owned, net	664	183	(5,116)	652
Gains (losses) on investments, net	3,048	—	3,048	1,568
Total other-than-temporary impairment losses on investments (Note 2)	(402)	(180)	(2,879)	(2,110)
Portion of loss recognized in other comprehensive income (loss) (Note 2)	(3,250)	(3,047)	(5,231)	(7,875)
Net other-than-temporary impairment losses on investments included in earnings	(3,652)	(3,227)	(8,110)	(9,985)
Gains (losses) on sale of rural home loans, net	—	—	(86)	(112)
Patronage refunds from other Farm Credit institutions	(39)	(43)	95	265
Insurance premium refund	—	—	—	10,440
Other noninterest income	1,020	888	2,557	1,597
Total noninterest income	4,443	1,121	(1,057)	10,807
Noninterest Expenses				
Salaries and employee benefits	10,694	10,063	21,762	19,908
Occupancy and equipment	3,200	3,758	6,652	7,298
Insurance Fund premiums	1,328	21	2,692	2,727
Other operating expenses	5,674	4,950	10,660	10,069
Called debt expense	4,416	12,321	5,859	18,106
Correspondent lending servicing expense	2,222	2,112	4,487	4,057
Other noninterest expense	35	69	105	139
Total noninterest expenses	27,569	33,294	52,217	62,304
Net income	\$ 105,105	\$ 90,067	\$ 208,010	\$ 206,667

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

Statements of Changes in Shareholders' Equity

(unaudited)

<i>(dollars in thousands)</i>	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
			Allocated	Unallocated		
Balance at December 31, 2009	\$ 400,000	\$ 438,707	\$ 965	\$ 863,862	\$ (123,204)	\$ 1,580,330
Comprehensive income						
Net income				206,667		206,667
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 2)					5,023	
Not other-than-temporarily impaired (Note 2)					94,254	
Total unrealized gains (losses) on investments available for sale						99,277
Employee benefit plans adjustments					150	150
Total comprehensive income						306,094
Capital stock/participation certificates issued/(retired), net		(3,801)				(3,801)
Perpetual preferred stock dividends paid				(13,706)		(13,706)
Cash patronage				(10,197)		(10,197)
Patronage distribution adjustment			(150)	150		—
Balance at June 30, 2010	\$ 400,000	\$ 434,906	\$ 815	\$ 1,046,776	\$ (23,777)	\$ 1,858,720
Balance at December 31, 2010	\$ 400,000	\$ 417,333	\$ 871	\$ 1,052,248	\$ 32,329	\$ 1,902,781
Comprehensive income						
Net income				208,010		208,010
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 2)					2,018	
Not other-than-temporarily impaired (Note 2)					44,508	
Total unrealized gains (losses) on investments available for sale						46,526
Employee benefit plans adjustments					7	7
Change in value of firm commitments - when issued securities (Note 8)					2,080	2,080
Total comprehensive income						256,623
Capital stock/participation certificates issued/(retired), net		(4,688)				(4,688)
Perpetual preferred stock dividends paid				(13,706)		(13,706)
Patronage distribution						
Cash distributions declared				(10,000)		(10,000)
Nonqualified allocated retained earnings			14	(14)		—
Retained earnings retired			(26)			(26)
Patronage distribution adjustment			(7)	75		68
Balance at June 30, 2011	\$ 400,000	\$ 412,638	\$ 859	\$ 1,236,613	\$ 80,942	\$ 2,131,052

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 208,010	\$ 206,667
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	3,252	4,116
Premium amortization (discount accretion) on investment securities	13,031	18,460
(Premium amortization) discount accretion on bonds and notes	(1,172)	(4,586)
Provision for loan losses	30,276	22,482
(Gains) losses on other property owned, net	5,116	(652)
Net impairment losses on investments	8,110	9,985
(Gains) losses on investments, net	(3,048)	(1,568)
(Gains) losses on sales of rural home loans, net	86	112
Net change in loans held for sale	12,095	12,500
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	2,894	5,750
(Increase) decrease in due from associations	9,676	26,005
(Increase) decrease in other assets	24,445	7,595
Increase (decrease) in accrued interest and dividends payable	(4,692)	(27,572)
Increase (decrease) in other liabilities	(14,440)	(39,305)
Total adjustments	85,629	33,322
Net cash provided by (used in) operating activities	293,639	239,989
Cash flows from investing activities:		
Investment securities purchased	(773,379)	(1,112,068)
Investment securities sold or matured	852,711	1,207,329
(Increase) decrease in forward purchases - when issued securities	2,080	—
Net (increase) decrease in loans	294,227	559,249
(Increase) decrease in investments in other Farm Credit System institutions	146	12,064
Purchase of premises and equipment, net	(3,273)	(3,094)
Proceeds from sale of other property owned	13,246	7,450
Net cash provided by (used in) investing activities	385,758	670,930
Cash flows from financing activities:		
Bonds and notes issued	16,012,582	29,933,669
Bonds and notes retired	(16,695,026)	(30,133,525)
Capital stock and participation certificates issued/retired, net	(4,688)	(3,801)
Cash distribution to shareholders	(200,475)	(192,921)
Dividends paid on perpetual preferred stock	(13,706)	(13,706)
Retained earnings retired	(26)	—
Net cash provided by (used in) financing activities	(901,339)	(410,284)
Net increase (decrease) in cash and cash equivalents	(221,942)	500,635
Cash and cash equivalents, beginning of period	1,427,033	938,884
Cash and cash equivalents, end of period	\$ 1,205,091	\$ 1,439,519
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other property owned	\$ 6,953	\$ 5,939
Change in unrealized gains (losses) on investments and derivative instruments, net	46,526	99,277
Change in fair value of derivative instruments (Note 8)	(8,769)	—
Employee benefit plans adjustments	7	150
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	\$ (10,315)	\$ 6,309
Decrease (increase) in other assets	10,315	(6,081)
Increase (decrease) in other liabilities	—	(228)
Supplemental information:		
Interest paid	\$ 164,375	\$ 237,246

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

Notes to the Financial Statements

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

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

Organization and Significant Accounting Policies

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

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

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

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

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

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

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

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

Recently Issued Accounting Pronouncements

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

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

asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

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

In January 2011, the FASB issued guidance entitled, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings.” This guidance temporarily delayed the effective date of the disclosures about TDRs required by the guidance previously issued on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The effective date of the new disclosures about TDRs coincides with the guidance for determining what constitutes a TDR as described above.

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

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

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

NOTE 2 — INVESTMENT SECURITIES**Available-for-sale**

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

	June 30, 2011				
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. GNMA					
MBS/CMOs	\$ 4,992,477	\$ 147,788	\$ (4,289)	\$ 5,135,976	2.43%
U.S. Govt. Agency MBS	1,640,390	23,509	(16,093)	1,647,806	1.42
Non-Agency CMOs (a)	312,602	383	(53,656)	259,329	0.55
Asset-Backed Securities (a)	36,865	1,437	(8,850)	29,452	0.59
Total	\$ 6,982,334	\$ 173,117	\$ (82,888)	\$ 7,072,563	2.10%

	December 31, 2010				
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. GNMA					
MBS/CMOs	\$ 4,836,617	\$ 116,377	\$ (5,983)	\$ 4,947,011	2.19%
U.S. Govt. Agency MBS	1,743,192	26,768	(22,570)	1,747,390	1.46
Non-Agency CMOs (b)	357,648	59	(62,181)	295,526	0.67
Asset-Backed Securities (b)	43,204	2,354	(11,121)	34,437	0.70
Total	\$ 6,980,661	\$ 145,558	\$ (101,855)	\$ 7,024,364	1.92%

(a) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of \$13.5 million for Non-Agency CMOs and \$6.9 million for Asset-Backed Securities.

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

Held-to-maturity

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

	June 30, 2011				
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. Agency MBS	\$ 795,333	\$ 60,482	\$ (226)	\$ 855,589	5.20%
Mission Related Investments	157,883	6,846	(655)	164,074	6.11
Total	\$ 953,216	\$ 67,328	\$ (881)	\$ 1,019,663	5.35%

	December 31, 2010				
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. Agency MBS	\$ 913,648	\$ 57,611	\$ (248)	\$ 971,011	5.35%
Mission Related Investments	138,666	5,476	(1,089)	143,053	6.15
Total	\$1,052,314	\$ 63,087	\$ (1,337)	\$ 1,114,064	5.46%

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

Available-for-sale

(dollars in thousands)	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	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield
U.S. Govt. GNMA MBS/CMOs	\$ —	—%	\$ —	—%	\$ 1,208	0.80 %	\$ 5,134,768	2.43 %	\$ 5,135,976	2.43 %
U.S. Govt. Agency MBS	—	—	16,586	4.69	36,127	0.68	1,595,093	1.41	1,647,806	1.42
Non-Agency CMOs	—	—	—	—	—	—	259,329	0.55	259,329	0.55
Asset-Backed Securities	—	—	—	—	—	—	29,452	0.59	29,452	0.59
Total fair value	\$ —	—%	\$ 16,586	4.69 %	\$ 37,335	0.68 %	\$ 7,018,642	2.10 %	\$ 7,072,563	2.10 %
Total amortized cost	\$ —		\$ 15,519		\$ 37,238		\$ 6,929,577		\$ 6,982,334	

Held-to-maturity

(dollars in thousands)	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	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield
U.S. Govt. Agency MBS	\$ —	—%	\$ —	—%	\$ 1,590	4.95 %	\$ 793,743	5.20 %	\$ 795,333	5.20 %
Mission Related Investments	—	—	24,717	6.64	31,590	6.09	101,576	5.99	157,883	6.11
Total amortized cost	\$ —	—%	\$ 24,717	6.64 %	\$ 33,180	6.04 %	\$ 895,319	5.29 %	\$ 953,216	5.35 %
Total fair value	\$ —		\$ 26,161		\$ 34,816		\$ 958,686		\$ 1,019,663	

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 half of 2011, proceeds from sales of investments were \$57.0 million and realized gains were \$3.0 million. During the second quarter of 2010, proceeds from sales of investment securities were \$57.5 million and realized gains were \$1.6 million.

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

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

The Bank's MBSs are collateralized by U.S. Government or U.S. Agency guaranteed residential mortgages and all were rated AAA/Aaa at June 30, 2011. Non-agency CMO securities not rated in the top category by at least one of the NRSROs at June 30, 2011 had a fair value of \$190.6 million. ABSs not rated in the top category by at least one of the NRSROs at June 30, 2011 had a fair value of \$19.9 million. For each of these investment securities in the Bank's portfolio rated below AAA/Aaa, the Bank has developed and submitted plans for approval by the FCA that provide that the securities may be held to maturity. The FCA has approved, with conditions, the Bank's plans for all but one investment that has recently become ineligible. The Bank is in the process of submitting a plan to hold this one investment to the FCA for approval.

The fair value of all investments at June 30, 2011 split rated AAA/Aaa or lower by the NRSROs totaled \$279.1 million (amortized cost of \$338.5 million). This represents approximately 3.45 percent (and 4.27 percent) of total fair value (and amortized cost) of the Bank's total investment portfolio at June 30, 2011. Split rated AAA/Aaa is defined as a security maintaining different ratings by the NRSROs with at least one NRSRO rating the security AAA/Aaa.

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

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

	June 30, 2011					
	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	\$ 181,842	\$ (426)	\$ 284,610	\$ (3,863)	\$ 466,452	\$ (4,289)
U.S. Govt. Agency MBS	214,781	(887)	552,393	(15,432)	767,174	(16,319)
Non-Agency CMOs	—	—	257,953	(53,656)	257,953	(53,656)
Asset-Backed Securities	—	—	26,810	(8,850)	26,810	(8,850)
Mission Related Investments	31,291	(655)	—	—	31,291	(655)
Total	\$ 427,914	\$ (1,968)	\$ 1,121,766	\$ (81,801)	\$ 1,549,680	\$ (83,769)

	December 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	\$ 602,933	\$ (2,529)	\$ 325,506	\$ (3,454)	\$ 928,439	\$ (5,983)
U.S. Govt. Agency MBS	219,661	(1,492)	627,100	(21,327)	846,761	(22,819)
Non-Agency CMOs	—	—	292,015	(62,180)	292,015	(62,180)
Asset-Backed Securities	—	—	30,328	(11,121)	30,328	(11,121)
Mission Related Investments	43,895	(864)	4,784	(225)	48,679	(1,089)
Total	\$ 866,489	\$ (4,885)	\$ 1,279,733	\$ (98,307)	\$ 2,146,222	\$ (103,192)

FASB guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Bank intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of

the security. When the Bank does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes. Based on the results of all analyses, the Bank has recognized total other-than-temporary impairment during the first six months of 2011 of \$2.9 million in connection with ABS securities and non-agency CMO securities in its portfolio, which is included in Impairment Losses on Investments in the Statements of Income.

Since the Bank does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the other-than temporary impairment of \$2.9 million is separated into: (1) the estimated amount relating to credit loss (\$8.1 million reflected in Net Income in the Statements of Income), which is partially offset by (2) the amount relating to all other factors (\$5.2 million reflected in other comprehensive income in the Statement of Changes in Shareholders' Equity).

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

Significant inputs used in this technique to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Bank obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The forecasted cumulative default rates used at June 30, 2011 ranged from 2.02 percent to 49.54 percent for non-agency CMO securities and from 24.15 percent to 88.52 percent for ABS securities. Prepayment rate assumptions are based on forecasted prepayments and resulted in prepayment rates that ranged from 4.08 percent to 11.39 percent for non-agency CMO securities and from 2.81 percent to 5.05 percent for ABS securities at June 30, 2011. At June 30, 2011, the loss severity rates estimated from assumptions ranged from 6.11 percent to 68.02 percent for non-agency CMO securities and from 70.32 percent to 100.00 percent for ABS securities.

For all investments, other than the other-than-temporarily impaired securities discussed above, the Bank has not recognized any other-than-temporary impairment as the unrealized losses resulted from non-credit related factors. The Bank has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. Government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost. For the six months ended June 30, 2011, net unrealized gains of \$44.5 million were recognized in other comprehensive income for not other-than-temporarily impaired available-for-sale investments.

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

<i>(dollars in thousands)</i>	For the six months ended June 30, 2011
Beginning balance at January 1, 2011	\$ 44,791
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	1,463
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	6,646
Reductions for increases in expected cash flows	(620)
Ending balance at June 30, 2011	\$ 52,280

<i>(dollars in thousands)</i>	For the six months ended June 30, 2010
Beginning balance at January 1, 2010	\$ 33,159
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	221
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	9,764
Ending balance at June 30, 2010	\$ 43,144

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

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

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

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

A summary of loans outstanding at June 30, 2011 and December 31, 2010, follows:

<i>(dollars in thousands)</i>	June 30, 2011	December 31, 2010
Direct notes	\$ 14,552,923	\$ 14,778,448
Real estate mortgage	1,294,436	1,401,285
Production and intermediate-term Agribusiness	1,336,810	1,486,639
Loans to cooperatives	210,699	162,167
Processing and marketing	681,619	712,171
Farm-related business	83,616	61,801
Total agribusiness	975,934	936,139
Communication	119,642	113,021
Energy	267,028	296,213
Water and waste disposal	28,000	28,000
Rural residential real estate	1,966,340	1,831,928
Lease receivables	4,741	6,331
Loans to other financial institutions (OFIs)	16,000	5,000
Other (including mission-related)	18,102	22,161
Total Loans	<u>\$ 20,579,956</u>	<u>\$ 20,905,165</u>

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

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

<i>(dollars in thousands)</i>	June 30, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 1,146,328	\$ 35,939	\$ 92,944	\$ 42,192	\$ 18,288	\$ —	\$ 1,257,560	\$ 78,131
Production and intermediate-term Agribusiness	1,418,187	289,193	216,679	206,571	202,149	—	1,837,015	495,764
Loans to cooperatives	7,212	59,726	239,395	—	24,446	—	271,053	59,726
Processing and marketing	205,036	320,830	316,870	27,373	552,364	32,161	1,074,270	380,364
Farm-related business	38,158	21,523	78,231	—	4,430	—	120,819	21,523
Total agribusiness	250,406	402,079	634,496	27,373	581,240	32,161	1,466,142	461,613
Communication	—	35,684	155,985	—	—	—	155,985	35,684
Energy	246	20,916	267,771	—	21,279	—	289,296	20,916
Water and waste disposal	—	—	28,000	—	—	—	28,000	—
Lease receivables	4,741	—	—	—	—	—	4,741	—
Loans to OFIs	—	—	—	—	16,000	—	16,000	—
Other (including mission-related)	18,293	—	—	—	—	—	18,293	—
Total	<u>\$ 2,838,201</u>	<u>\$ 783,811</u>	<u>\$ 1,395,875</u>	<u>\$ 276,136</u>	<u>\$ 838,956</u>	<u>\$ 32,161</u>	<u>\$ 5,073,032</u>	<u>\$ 1,092,108</u>

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

A significant source of liquidity for the Bank is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at June 30, 2011 and indicates that approximately 12.54 percent of loans had maturities of less than one year:

<i>(dollars in thousands)</i>	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Direct notes	\$ 1,807,362	\$ 4,981,962	\$ 7,763,599	\$ 14,552,923
Real estate mortgage	186,539	382,290	725,607	1,294,436
Production and intermediate-term	388,979	627,814	320,017	1,336,810
Agribusiness				
Loans to cooperatives	62,084	100,238	48,377	210,699
Processing and marketing	125,867	431,449	124,303	681,619
Farm-related business	(9,101)	63,048	29,669	83,616
Total agribusiness	178,850	594,735	202,349	975,934
Communication	(22)	99,899	19,765	119,642
Energy	13,622	96,559	156,847	267,028
Water and waste disposal	—	—	28,000	28,000
Rural residential real estate	—	2,550	1,963,790	1,966,340
Lease receivables	4,741	—	—	4,741
Loans to OFIs	—	16,000	—	16,000
Other (including mission-related)	(50)	—	18,152	18,102
Total Loans	\$ 2,580,021	\$ 6,801,809	\$ 11,198,126	\$ 20,579,956

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

	June 30, 2011	December 31, 2010		June 30, 2011	December 31, 2010
Direct notes:			Communication:		
Acceptable	85.28%	83.96%	Acceptable	100.00%	100.00%
OAEM	12.59	11.28	OAEM	—	—
Substandard/doubtful/loss	2.13	4.76	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Real estate mortgage:			Energy and water/waste disposal:		
Acceptable	81.26%	82.93%	Acceptable	97.78%	97.94%
OAEM	9.24	8.28	OAEM	0.86	0.80
Substandard/doubtful/loss	9.50	8.79	Substandard/doubtful/loss	1.36	1.26
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Rural residential real estate:		
Acceptable	78.99%	79.49%	Acceptable	100.00%	100.00%
OAEM	12.77	14.46	OAEM	—	—
Substandard/doubtful/loss	8.24	6.05	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Agribusiness:			Lease receivables:		
Loans to cooperatives:			Acceptable	100.00%	100.00%
Acceptable	96.83%	95.12%	OAEM	—	—
OAEM	3.17	4.88	Substandard/doubtful/loss	—	—
Substandard/doubtful/loss	—	—		100.00%	100.00%
	100.00%	100.00%	Loans to OFIs:		
Processing and marketing:			Acceptable	100.00%	100.00%
Acceptable	81.35%	78.10%	OAEM	—	—
OAEM	6.88	11.48	Substandard/doubtful/loss	—	—
Substandard/doubtful/loss	11.77	10.42		100.00%	100.00%
	100.00%	100.00%	Other (including mission-related):		
Farm-related business:			Acceptable	87.93%	73.93%
Acceptable	99.19%	99.42%	OAEM	1.68	1.41
OAEM	0.81	0.58	Substandard/doubtful/loss	10.39	24.66
Substandard/doubtful/loss	—	—		100.00%	100.00%
	100.00%	100.00%	Total Loans:		
Total agribusiness:			Acceptable	86.35%	85.21%
Acceptable	86.22%	82.46%	OAEM	10.59	10.00
OAEM	5.56	9.61	Substandard/doubtful/loss	3.06	4.79
Substandard/doubtful/loss	8.22	7.93		100.00%	100.00%
	100.00%	100.00%			

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

June 30, 2011						
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Direct notes	\$ —	\$ —	\$ —	\$ 14,587,641	\$ 14,587,641	\$ —
Real estate mortgage	9,796	108,814	118,610	1,184,809	1,303,419	4,108
Production and intermediate-term Agribusiness	6,379	28,659	35,038	1,309,226	1,344,264	13
Loans to cooperatives	—	909	909	210,531	211,440	909
Processing and marketing	4,939	10,209	15,148	669,030	684,178	—
Farm-related business	—	—	—	83,766	83,766	—
Total agribusiness	4,939	11,118	16,057	963,327	979,384	909
Communication	—	—	—	119,842	119,842	—
Energy and water/waste disposal	—	—	—	296,494	296,494	—
Rural residential real estate	39,159	5,474	44,633	1,928,450	1,973,083	5,388
Lease receivables	—	—	—	4,767	4,767	—
Loans to OFIs	—	—	—	16,020	16,020	—
Other (including mission-related)	—	100	100	18,155	18,255	—
Total	\$ 60,273	\$ 154,165	\$ 214,438	\$ 20,428,731	\$ 20,643,169	\$ 10,418

December 31, 2010						
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Direct notes	\$ —	\$ —	\$ —	\$ 14,814,929	\$ 14,814,929	\$ —
Real estate mortgage	5,488	63,507	68,995	1,341,963	1,410,958	686
Production and intermediate-term Agribusiness	260	16,807	17,067	1,477,746	1,494,813	—
Loans to cooperatives	—	—	—	162,885	162,885	—
Processing and marketing	9	97	106	714,297	714,403	—
Farm-related business	—	—	—	61,960	61,960	—
Total agribusiness	9	97	106	939,142	939,248	—
Communication	—	—	—	113,221	113,221	—
Energy and water/waste disposal	—	—	—	326,091	326,091	—
Rural residential real estate	36,734	5,889	42,623	1,795,675	1,838,298	5,889
Lease receivables	—	—	—	6,378	6,378	—
Loans to OFIs	—	—	—	5,008	5,008	—
Other (including mission-related)	—	65	65	22,278	22,343	—
Total	\$ 42,491	\$ 86,365	\$ 128,856	\$ 20,842,431	\$ 20,971,287	\$ 6,575

The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

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

<i>(dollars in thousands)</i>	June 30, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	\$ 81,340	\$ 74,838
Production and intermediate-term	65,165	35,002
Agribusiness		
Loans to cooperatives	—	—
Processing and marketing	14,091	3,825
Farm-related business	—	—
Total agribusiness	14,091	3,825
Energy and water/waste disposal	4,024	—
Rural residential real estate	391	509
Other (including mission-related)	1,698	1,546
Total nonaccrual loans	<u>\$ 166,709</u>	<u>\$ 115,720</u>
Accruing restructured loans:		
Real estate mortgage	\$ 4,743	\$ 5,010
Production and intermediate-term	6,598	9,610
Agribusiness		
Loans to cooperatives	—	—
Processing and marketing	28,053	30,683
Farm-related business	—	—
Total agribusiness	28,053	30,683
Energy and water/waste disposal	—	—
Rural residential real estate	—	—
Other (including mission-related)	—	—
Total accruing restructured loans	<u>\$ 39,394</u>	<u>\$ 45,303</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 4,108	\$ 686
Production and intermediate-term	13	—
Agribusiness		
Loans to cooperatives	909	—
Processing and marketing	—	—
Farm-related business	—	—
Total agribusiness	909	—
Energy and water/waste disposal	—	—
Rural residential real estate	5,388	5,889
Other (including mission-related)	—	—
Total accruing loans 90 days or more past due	<u>\$ 10,418</u>	<u>\$ 6,575</u>
Total nonperforming loans	\$ 216,521	\$ 167,598
Other property owned	28,310	39,719
Total nonperforming assets	<u>\$ 244,831</u>	<u>\$ 207,317</u>
Nonaccrual loans as a percentage of total loans	0.81%	0.55%
Nonperforming assets as a percentage of total loans and other property owned	1.19%	0.99%
Nonperforming assets as a percentage of capital	11.49%	10.90%

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

<i>(dollars in thousands)</i>	June 30, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 20,315	\$ 33,894
Past due	146,394	81,826
Total impaired nonaccrual loans	<u>166,709</u>	<u>115,720</u>
Impaired accrual loans:		
Restructured	39,394	45,303
90 days or more past due	10,418	6,575
Total impaired accrual loans	<u>49,812</u>	<u>51,878</u>
Total impaired loans	<u>\$ 216,521</u>	<u>\$ 167,598</u>

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

(dollars in thousands)	June 30, 2011			Quarter Ended June 30, 2011		Six Months Ended June 30, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	\$ 17,816	\$ 18,448	\$ 2,414	\$ 16,285	\$ —	\$ 12,206	\$ —
Production and intermediate-term Agribusiness	10,717	11,701	3,351	9,796	—	7,342	—
Loans to cooperatives	—	—	—	—	—	—	—
Processing and marketing	5,044	5,060	1,050	4,610	—	3,456	—
Total agribusiness	5,044	5,060	1,050	4,610	—	3,456	—
Energy and water/waste disposal	4,024	4,104	3,000	3,678	—	2,757	—
Rural residential real estate	—	—	—	—	—	—	—
Other (including mission-related)	1,697	1,879	220	1,552	—	1,163	—
Total	\$ 39,298	\$ 41,192	\$ 10,035	\$ 35,921	\$ —	\$ 26,924	\$ —
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 72,375	\$ 125,313	\$ —	\$ 59,752	\$ 158	\$ 60,165	\$ 346
Production and intermediate-term Agribusiness	61,059	67,180	—	61,005	317	54,821	313
Loans to cooperatives	909	—	—	1,450	32	1,646	32
Processing and marketing	37,100	50,603	—	35,537	450	34,392	929
Total agribusiness	38,009	50,603	—	36,987	482	36,038	961
Energy and water/waste disposal	—	—	—	55	20	718	20
Rural residential real estate	5,779	5,778	—	4,458	135	4,679	144
Other (including mission-related)	1	—	—	1,050	—	2,259	—
Total	\$ 177,223	\$ 248,874	\$ —	\$ 163,307	\$ 1,112	\$ 158,680	\$ 1,784
Total impaired loans:							
Real estate mortgage	\$ 90,191	\$ 143,761	\$ 2,414	\$ 76,037	\$ 158	\$ 72,371	\$ 346
Production and intermediate-term Agribusiness	71,776	78,881	3,351	70,801	317	62,163	313
Loans to cooperatives	909	—	—	1,450	32	1,646	32
Processing and marketing	42,144	55,663	1,050	40,147	450	37,848	929
Total agribusiness	43,053	55,663	1,050	41,597	482	39,494	961
Energy and water/waste disposal	4,024	4,104	3,000	3,733	20	3,475	20
Rural residential real estate	5,779	5,778	—	4,458	135	4,679	144
Other (including mission-related)	1,698	1,879	220	2,602	—	3,422	—
Total	\$ 216,521	\$ 290,066	\$ 10,035	\$ 199,228	\$ 1,112	\$ 185,604	\$ 1,784

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

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

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

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

June 30, 2011												
(dollars in thousands)	Direct Note	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including mission related)	Total		
Allowance for credit losses:												
Balance at December 31, 2010	\$	—	\$ 4,836	\$ 5,938	\$ 2,722	\$ 69	\$ 307	\$ —	\$ —	\$ 1,001	\$	14,873
Charge-offs		—	(2,051)	(5,771)	(3,485)	—	—	(36)	—	(679)		(12,022)
Recoveries		—	173	1	—	—	—	—	—	—		174
Provision for loan losses		—	12,426	10,119	4,724	40	2,953	36	—	(22)		30,276
Balance at June 30, 2011	\$	—	\$ 15,384	\$ 10,287	\$ 3,961	\$ 109	\$ 3,260	\$ —	\$ —	\$ 300	\$	33,301
June 30, 2011 allowance ending balance:												
Loans individually evaluated for impairment	\$	—	\$ 2,414	\$ 3,351	\$ 1,050	\$ —	\$ 3,000	—	\$ —	\$ 220	\$	10,035
Loans collectively evaluated for impairment	\$	—	\$ 12,970	\$ 6,936	\$ 2,911	\$ 109	\$ 260	\$ —	\$ —	\$ 80	\$	23,266
Recorded investment in loans outstanding:												
Ending Balance at June 30, 2011	\$	14,587,641	\$ 1,303,419	\$ 1,344,264	\$ 979,384	\$ 119,842	\$ 296,494	\$ 1,973,083	\$ 4,767	\$ 34,275	\$	20,643,169
June 30, 2011 recorded investment ending balance:												
Loans individually evaluated for impairment	\$	14,587,641	\$ 260,945	\$ 375,287	\$ 291,164	\$ —	\$ 71,461	\$ 1,973,083	\$ 4,724	\$ 6,312	\$	17,570,617
Loans collectively evaluated for impairment	\$	—	\$ 1,042,474	\$ 968,977	\$ 688,220	\$ 119,842	\$ 225,033	\$ —	\$ 43	\$ 27,963	\$	3,072,552

December 31, 2010

<i>(dollars in thousands)</i>	Direct Note	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including mission related)	Total
Allowance for credit losses:										
Balance at December 31, 2009	\$	—	\$ 11,583	\$ 11,606	\$ 8,286	\$ 72	\$ 274	\$ 12	\$ —	\$ 32,292
Charge-offs		—	(42,430)	(8,590)	(7,379)	—	—	—	—	(58,399)
Recoveries		—	799	19	160	—	—	—	—	978
Provision for loan losses		—	34,884	2,903	1,655	(3)	33	(12)	—	40,002
Balance at December 31, 2010	\$	—	\$ 4,836	\$ 5,938	\$ 2,722	\$ 69	\$ 307	\$ —	\$ —	\$ 14,873

December 31, 2010 allowance ending balance:

Loans individually evaluated for impairment	\$	—	\$ 1,788	\$ 2,129	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,517
Loans collectively evaluated for impairment	\$	—	\$ 3,048	\$ 3,809	\$ 2,722	\$ 69	\$ 307	\$ —	\$ —	\$ 10,356

Recorded investment in loans outstanding:

Ending Balance at December 31, 2010	\$	14,814,929	\$ 1,410,958	\$ 1,494,813	\$ 939,248	\$ 113,221	\$ 326,091	\$ 1,838,298	\$ 6,378	\$ 27,351	\$ 20,971,287
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December 31, 2010 recorded investment ending balance:

Loans individually evaluated for impairment	\$	14,814,929	\$ 243,593	\$ 325,708	\$ 257,290	\$ —	\$ 79,917	\$ 1,838,298	\$ 6,348	\$ 10,190	\$ 17,576,273
Loans collectively evaluated for impairment	\$	—	\$ 1,167,365	\$ 1,169,105	\$ 681,958	\$ 113,221	\$ 246,174	\$ —	\$ 30	\$ 17,161	\$ 3,395,014

NOTE 4 — FAIR VALUE MEASUREMENT

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

June 30, 2011				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	\$ —	\$ 5,135,976	\$ —	\$ 5,135,976
U.S. Govt. Agency MBS	—	1,647,806	—	1,647,806
Non-Agency CMOs	—	—	259,329	259,329
Asset-backed securities	—	—	29,452	29,452
Total investments available-for-sale	—	6,783,782	288,781	7,072,563
Commercial paper, bankers' acceptances, CD's & others	—	54,561	—	54,561
Federal funds sold, securities purchased under resale agreements, and other	—	58,316	—	58,316
Interest rate swaps and other financial instruments	—	51,930	—	51,930
Assets held in trust funds	3,504	—	—	3,504
Total Assets	\$ 3,504	\$ 6,948,589	\$ 288,781	\$ 7,240,874

Liabilities:				
Interest rate swaps and other financial instruments	\$ —	\$ 12	\$ —	\$ 12
Collateral liabilities	—	20,375	—	20,375
Standby letters of credit	—	—	2,168	2,168
Total Liabilities	\$ —	\$ 20,387	\$ 2,168	\$ 22,555

December 31, 2010				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	\$ —	\$ 4,947,011	\$ —	\$ 4,947,011
U.S. Govt. Agency MBS	—	1,747,390	—	1,747,390
Non-Agency CMOs	—	—	295,526	295,526
Asset-backed securities	—	—	34,437	34,437
Total investments available-for-sale	—	6,694,401	329,963	7,024,364
Commercial paper, bankers' acceptances, CD's & others	—	52,000	—	52,000
Federal funds sold, securities purchased under resale agreements, and other	—	8,744	—	8,744
Interest rate swaps and other financial instruments	—	62,245	—	62,245
Assets held in trust funds	2,983	—	—	2,983
Total Assets	\$ 2,983	\$ 6,817,390	\$ 329,963	\$ 7,150,336

Liabilities:				
Interest rate swaps and other financial instruments	\$ —	\$ 8,781	\$ —	\$ 8,781
Collateral liabilities	—	18,315	—	18,315
Standby letters of credit	—	—	1,263	1,263
Total Liabilities	\$ —	\$ 27,096	\$ 1,263	\$ 28,359

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

<i>(dollars in thousands)</i>	Asset-Backed Investment Securities	Non- Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2011	\$ 34,437	\$ 295,526	\$ 1,263
Total gains or (losses) realized/unrealized:			
Included in earnings	(2,963)	(4,527)	—
Included in other comprehensive income (loss)	1,353	8,850	—
Purchases	—	—	—
Sales	—	—	—
Issuances	—	—	905
Settlements	(3,375)	(40,520)	—
Transfers in and/or out of level 3	—	—	—
Balance at June 30, 2011	<u>\$ 29,452</u>	<u>\$ 259,329</u>	<u>\$ 2,168</u>

<i>(dollars in thousands)</i>	Asset-Backed Investment Securities	Non- Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2010	\$ 47,465	\$ 360,027	\$ 2,461
Total gains or (losses) realized/unrealized:			
Included in earnings	(7,139)	(2,847)	—
Included in other comprehensive income (loss)	2,098	14,484	—
Purchases, sales, issuances and settlements, net	(6,827)	(47,879)	(720)
Transfers in and/or out of level 3	—	—	—
Balance at June 30, 2010	<u>\$ 35,597</u>	<u>\$ 323,785</u>	<u>\$ 1,741</u>

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 June 30, 2011 and December 31, 2010 for each of the fair value hierarchy values are summarized below:

June 30, 2011					
<i>(dollars in thousands)</i>	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ —	\$ —	\$ 29,263	\$ 29,263	\$ (17,367)
Other property owned	—	—	27,139	27,139	(4,520)

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

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

<i>(dollars in thousands)</i>	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Loans, net of allowance	\$ 20,609,868	\$ 20,780,153	\$ 20,956,414	\$ 21,073,358
Derivative assets	51,930	51,930	62,245	62,245
Cash and cash equivalents	1,205,091	1,205,091	1,427,033	1,427,033
Investment securities	8,044,364	8,092,226	8,095,248	8,138,428
Assets held in trust funds	3,504	3,504	2,983	2,983
Financial liabilities:				
Systemwide debt securities	\$ 27,683,922	\$ 27,689,906	\$ 28,382,546	\$ 28,284,708
Derivative liabilities	12	12	8,781	8,781

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

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

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

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

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

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

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

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

NOTE 6 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each Farm Credit System (System) bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the banks are jointly and severally liable for the bonds and notes of the other System banks. The bonds and notes of the System totaled \$187.296 billion at June 30, 2011.

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

NOTE 7 — EMPLOYEE BENEFIT PLANS

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

<i>(dollars in thousands)</i>	For the six months ended June 30,	
	2011	2010
Pension	\$ 4,861	\$ 4,527
401k	553	467
Other postretirement benefits	591	495
Total	<u>\$ 6,005</u>	<u>\$ 5,489</u>

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

<i>(dollars in thousands)</i>	Actual YTD Through 6/30/11	Projected Contributions for Remainder of 2011	Projected Total Contributions 2011
Pensions	\$ 146	\$ 7,351	\$ 7,497
Other postretirement benefits	470	607	1,077
Total	<u>\$ 616</u>	<u>\$ 7,958</u>	<u>\$ 8,574</u>

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

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

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Bank's goal is to minimize interest rate sensitivity by managing the repricing characteristics of assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. The Bank maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to lower cost of funding or to reduce interest rate risk. Currently, the primary derivative type used by the Bank is interest rate swaps, which convert fixed interest rate debt to a lower floating interest rate than was achievable from issuing floating rate debt with identical repricing characteristics. The Bank may also fix a price to be paid in the future which qualifies as a derivative forward contract.

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

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

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

Notional Amounts <i>(dollars in millions)</i>	Receive- Fixed Swaps	Forward Contracts
Balance at beginning of period	\$ 1,135	\$ 445
Additions	—	244
Maturities/amortization	(200)	(688)
Terminations	—	—
Balance at end of period	<u>\$ 935</u>	<u>\$ 1</u>

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

To minimize the risk of credit losses, the Bank deals with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of and levels of exposure to individual counterparties. The estimated gross credit risk exposure at June 30, 2011 of \$51.9 million was with six counterparties and represented approximately 5.55 percent of the total notional amount of interest rate swaps. The Bank held \$20.4 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The Bank does not anticipate nonperformance by any of these counterparties. The estimated gross credit risk exposure at December 31, 2010 of \$62.2 million was with seven counterparties and represented approximately 5.48 percent of the total notional amount of interest rate swaps. The Bank held \$18.3 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties. At period end, the Bank had not posted collateral with respect to any of these arrangements.

The Bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of the Bank's asset/liability and treasury functions. The Bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by the Bank's Board of Directors through the Bank's analysis of data derived from financial simulation models and other internal and industry

sources. The resulting hedging strategies are then incorporated into the Bank's overall interest rate risk-management strategies.

Fair-Value Hedges

For derivative instruments designated as a fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the six months ended June 30, 2011 was \$10.3 million, while the amount of the gain on the Systemwide debt securities was \$10.3 million. The amount of the gain on interest rate swaps recognized in interest expense for the six months ended June 30, 2010 was \$6.1 million, while the amount of the loss on the Systemwide debt securities was \$6.1 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

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

At December 31, 2010 the Bank had committed to purchase \$444.5 million in when-issued GNMA bonds that had a market value of \$435.7 million, an \$8.8 million decline in value. At June 30, 2011 the Bank had no such commitments.

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

Fair Values of Derivative Instruments

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

<i>(dollars in thousands)</i>	Balance Sheet Classification – Assets	6/30/11 Fair Value	Balance Sheet Classification – Liabilities	6/30/11 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	\$ 51,930	Other Liabilities	\$ –
Forward contracts	Other Assets	–	Other Liabilities	12
Total		\$ 51,930		\$ 12

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

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

<i>(dollars in thousands)</i>	Location of Gain or (Loss) Recognized in the Statement of Income	2011 Amount of Gain or (Loss) Recognized in the Statement of Income	2010 Amount of Gain or (Loss) Recognized in the Statement of Income
Derivatives – Fair Value Hedging Relationships:			
Receive-fixed swaps	Noninterest Income	\$ –	\$ 305
Total		\$ –	\$ 305

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

<i>(dollars in thousands)</i>	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2011	2010		2011	2010		2011	2010
Derivatives – Cash Flow Hedging Relationships:								
Firm Commitments	\$ 1,810	\$ (8,751)	Interest Income	\$ (270)	\$ –	Interest Income	\$ –	\$ –

NOTE 9 – DISTRICT MERGER ACTIVITY

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

Prior to the merger, those Associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged Association. This agreement relates only to a finite pool of high risk assets of the merged Association existing at the merger date, which had a net total of approximately \$216.7 million and \$250.0 million at June 30, 2011 and January 1, 2011, respectively. Through this agreement, the merged Association will absorb substantial losses on these high risk assets in advance of the Bank providing financial assistance. This financial “safety net” from the Bank does not include losses that are sustained outside of the high risk asset pool. The agreement provides protection to the Bank, such as limitation on the Association’s ability to make patronage distributions and certain other restrictions which are imposed if the merged Association’s capital levels fail to meet minimum established levels. Assistance under the agreement, if any, is not expected to have a material impact on the financial condition of the Bank or District.

NOTE 10 – SUBSEQUENT EVENTS

The Bank has evaluated subsequent events and except for the two events discussed below, has determined there are no other subsequent events requiring disclosure through August 9, 2011, which is the date the financial statements were issued.

Subsequent to second quarter end, the Bank was informed of a failure to perform by a proposed purchaser in proceedings involving a borrower in bankruptcy. The Bank recognized an estimate of loss in its provision for loan loss at June 30, 2011, related to this borrower. Based on the latest estimates, the Bank, as a result of this action, could possibly incur additional loss of between \$6.5 and \$8.5 million. The Bank does not consider this amount to be material to the financial statements for the period ended June 30, 2011, and will continue to evaluate as events approach resolution.

On August 5, 2011, one of the NRSROs downgraded the long-term credit rating of U.S. Government (sovereign) debt one level to AA+ from the highest rating of AAA, while leaving the short-term credit rating unchanged. As a consequence of this downgrade action, on August 8, 2011, the same NRSRO downgraded the long-term credit rating of System debt due to the implied link between the credit rating of the System and the U.S. Government given the System's status as a GSE. The short-term credit rating of the System was not changed. A reduction in the System's credit rating may increase borrowing costs and may limit access to the capital markets, reducing the flexibility to issue debt across the full spectrum of the yield curve. See the *U.S. Fiscal Situation and Credit Rating Impact on Funding* section of Management's Discussion and Analysis for further information.