AgFirst Farm Credit Bank
& District Associations

Quarterly Report

First Quarter 2011

FIRST QUARTER 2011

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2011 quarterly report of AgFirst Farm Credit Bank and District Associations, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

M. Wayne Lambertson
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

Charl L. Butler
Chief Financial Officer

May 9, 2011

Report on Internal Control Over Financial Reporting

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

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

The Bank and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2011. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank and each District Association concluded that as of March 31, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank and each District Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2011.

F. A. Lowrey

F.A. Lowrey
Chief Executive Officer

Charl L. Butler

Charl L. Butler
Chief Financial Officer

May 9, 2011

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, as of and for the three month period ended March 31, 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 and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

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

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

FINANCIAL CONDITION

Loan Portfolio

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

Loan Types *(dollars in thousands)*	**March 31, 2011**		**December 31, 2010**		**March 31, 2010**	
Real Estate Mortgage	$ 9,914,087	43 %	$ 9,986,760	43 %	$ 9,862,393	43 %
Production and Intermediate-Term	7,744,947	34	8,105,060	35	7,973,562	35
Rural Residential Real Estate	2,331,202	10	2,258,480	10	2,074,831	9
Processing and Marketing	1,313,788	6	1,355,811	6	1,512,555	7
Loans to Cooperatives	472,821	2	304,161	1	375,181	2
Farm-Related Business	345,335	2	342,984	2	353,262	2
Energy	336,173	2	342,614	2	348,807	1
Communication	206,995	1	200,578	1	184,216	1
Water and Waste Disposal	28,022	–	28,024	–	28,024	–
Lease Receivables	9,654	–	10,697	–	14,574	–
Loans to OFIs	8,000	–	5,000	–	6,500	–
Other (including Mission Related)	91,182	–	92,724	–	98,723	–
Total	$ 22,802,206	100 %	$ 23,032,893	100 %	$ 22,832,628	100 %

Total loans outstanding were $22.802 billion at March 31, 2011, a decrease of $230.7 million, or 1.00 percent, compared to total loans outstanding at December 31, 2010. The decline in loan volume since 2010 year end is primarily due to the seasonal nature of District lending activity as borrowers typically pay down loans during the first quarter using proceeds from crop sales. Reduced loan demand from the continued relative weakness in the general economy is also a reason for the decline in loan volume.

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

Credit Quality

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

Credit Quality as of:			
Classification	**March 31, 2011**	**December 31, 2010**	**March 31, 2010**
Acceptable	87.00%	86.87%	86.55%
OAEM *	6.11%	6.65%	6.28%
Substandard	6.74%	6.33%	7.12%
Doubtful/loss	0.15%	0.15%	0.05%

* *Other Assets Especially Mentioned*

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

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

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

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

Although credit quality is generally stabilizing as recent positive economic signs slowly contribute to improved results for part-time farmers and those reliant on off-farm income, it will take time to fully resolve some problem assets due to their dependency on a recovery in the housing market and real estate values.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at March 31, 2011, were $816.1 million compared to $795.1 million at December 31, 2010. Nonaccrual loans increased $21.0 million primarily due to

$117.1 million of loan balances transferred to nonaccrual status during the three month period ended March 31, 2011. Offsetting this increase were repayments of $56.0 million, transfers to other property owned of $23.3 million, $15.3 million of charge-offs of uncollectible balances, and reinstatements to accrual status of $1.2 million. The ten largest nonaccrual borrower relationships accounted for 23.80 percent of the total nonaccrual balance. At March 31, 2011, total nonaccrual loans were primarily classified in the forestry (26.85 percent of the total), ethanol (10.17 percent), other real estate (10.00 percent), nursery/greenhouse (8.95 percent), cattle (7.59 percent), and non-farm income (6.85 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 3.58 percent of total loans outstanding at March 31, 2011.

Troubled Debt Restructurings

A troubled debt restructuring occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the District 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 $137.9 million at March 31, 2011 compared to $151.9 million at December 31, 2010. At March 31, 2011, troubled debt restructurings were comprised of $42.1 million of accruing restructured loans and $95.9 million of nonaccruing restructured loans. Restructured loans were primarily in the swine (28.11 percent of the total), forestry (25.98 percent) and other real estate (10.85 percent) segments.

Other Property Owned

Other property owned (OPO) consists of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO increased $1.9 million during the first three months of 2011 and totaled $148.4 million at March 31, 2011. For the three months ended March 31, 2011, transfers to OPO were $24.5 million. Offsetting this increase were disposals of $13.4 million during first quarter of 2011 and write-downs of OPO of $9.1 million. Write-downs during the first quarter of 2011 were comprised of several properties, and the largest property write-down of $4.1 million was for a land holding. The largest OPO holding at March 31, 2011, which consisted of a cattle and groves land holding, was $17.9 million (12.07 percent of the total).

Allowance for Loan Losses

The District maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was $184.1 million at March 31, 2011, as compared with $182.3 million at December 31, 2010. The increase during the three months ended March 31, 2011 of $1.8 million was primarily due to increases from provision expense of $33.7 million and recoveries of $2.0 million, offset by decreases for loan charge-offs of $17.9 million as their uncollectability became more measurable and apparent during the quarter, and $16.1 million for merger accounting adjustments as the allowance of the two merged Associations was transferred into their related loan balances on the merger effective date of January 1, 2011. See Note 3, *Loans and Allowance for Loan Losses*, and Note 11, *District Merger Activity*, in the Notes to the Combined Financial Statements for further information. Provision expense was related primarily to the ethanol (35.35 percent of the total), cattle (21.37 percent), and other real estate (19.77 percent) segments. Charge-offs during the three month period were related primarily to borrowers in the cattle (24.13 percent of the total), forestry (14.20 percent), and other real estate (13.68 percent) segments. The allowance at March 31, 2011 included specific reserves of $80.4 million (43.68 percent of the total) and $103.7 million (56.32 percent) of general reserves. The total allowance at March 31, 2011 was comprised primarily of reserves for the forestry (21.73 percent of the total), ethanol (12.55 percent), other real estate (8.07 percent), cattle (7.94 percent), and nursery/greenhouse (7.39 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 Combined Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding increases to the allowance from provision expense.

Liquidity and Funding Sources

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

At March 31, 2011, AgFirst had $27.064 billion in total debt outstanding compared to $28.526 billion at December 31, 2010. In addition, other interest-bearing liabilities for AgFirst included $225.0 million in Mandatorily Redeemable Preferred Stock in both periods. Total interest-bearing liabilities decreased primarily due to the decrease in loan volume as discussed in this report which reduced funding requirements. The Bank anticipates continued access to funding through the issuance of Farm Credit System debt.

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

Cash and cash equivalents, which decreased $1.012 billion from December 31, 2010 to a total of $452.0 million at March 31, 2011, consist primarily of cash on deposit and money market securities that are short term in nature (from overnight maturities to maturities that range up to 90 days). Money market securities must carry one of the two highest short-term ratings from a rating agency. The decrease in cash and cash equivalents was due primarily to the lesser amount of cash needed to maintain 15 days of liquidity coverage on maturing debt at March 31, 2011 compared to December 31, 2010.

Investment securities totaled $8.257 billion, or 25.65 percent of total assets at March 31, 2011, compared to $8.260 billion, or 24.62 percent, as of December 31, 2010. Investment securities decreased $3.0 million (0.04 percent), compared to December 31, 2010, as management maintained the investment securities portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

Investment securities classified as being held-to-maturity totaled $1.160 billion at March 31, 2011. These held-to-maturity investments were primarily Rural Housing Mortgage-Backed Securities purchased under a Mission Related Investment pilot program approved by the FCA in 2005.

Investment securities classified as being available-for-sale totaled $7.096 billion at March 31, 2011. Available-for-sale investments at March 31, 2011 included $5.167 billion in US Government GNMA securities, $1.624 billion in Agency mortgage backed securities, $273.7 million in non-agency CMOs, $30.8 million in asset-backed securities, and $962 thousand in commercial mortgage backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of March 31, 2011, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require a liquidity policy that establishes a minimum "coverage" level of 90 days. "Coverage" is defined as the number of days that maturing debt could be funded through the sale of eligible available-for-sale investments and cash and cash equivalents maintained by the Bank. At March 31, 2011, AgFirst's coverage was 217 days compared to 208 days at December 31, 2010. At March 31, 2011, the Bank's cash and cash equivalents position provided 25 days coverage (Bank policy minimum is 15 days) and investment securities fully backed by the U.S. government provided an additional 192 days of coverage. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation of 217 days.

The FCA considers an asset-backed or mortgage-backed investment security ineligible if it falls below the top category (AAA/Aaa) credit rating by the Nationally Recognized Statistical Rating Organizations (NRSROs). The FCA requires System institutions to divest of such an investment unless the FCA grants specific approval to continue to hold an ineligible security. For each of the investment securities in the District's portfolio at March 31, 2011 rated below AAA/Aaa (total fair value of $214.3 million and amortized cost of $264.3 million), the District has developed and submitted plans for approval by the FCA that provide that the District may continue to hold the securities. The FCA has approved, with conditions, the District's plans for all but five investments that have recently become ineligible. The District has submitted plans to hold these five investments to the FCA for approval and is awaiting a response. Management is of the opinion that holding these securities will result in a higher return for the District than selling them in the current illiquid market. Based on the District's analysis, no other-than-temporary credit related impairment was recognized on these recently ineligible securities in 2011.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain District ineligible securities are risk weighted between 200 percent and 50 percent instead of the standard 20 percent. These ineligible securities had a fair value of $108.0 million and amortized cost of $136.0 million. Other ineligible securities must be deducted completely from both capital and risk adjusted assets, based on the extent of their below investment grade rating from NRSROs. These securities had a fair value of $60.8 million and amortized cost of $74.8 million at March 31, 2011. See the *Capital Resources* section below for further discussion of the regulatory ratios. In addition, all ineligible investments, except non-agency reperformer CMOs which meet certain conditions, are excluded from liquidity coverage as defined above.

Net unrealized gains related to the available-for-sale securities were $26.5 million at March 31, 2011, compared to a total net unrealized gain amount of $43.3 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 District performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Additional analysis for each security not rated in the top category by the NRSROs is performed using a cash flow model with key assumptions and performance factors which may include credit default rate, prepayment rate, and loss severity. The objective is to quantify future possible loss of principal or interest due on each identified security. The credit enhancements specific to the individual security are considered as appropriate, and may include monoline credit insurance, subordination, over-collateralization, and excess interest spread. Asset-backed securities covered by insurers are analyzed with insurance and without, to quantify the extent of reliance on their guarantee. Based on the results of all analyses, the District recognized other-than-temporary credit related impairment of $4.5 million on asset-backed securities and non-agency CMOs in its portfolio during the quarter ended March 31, 2011, which was included in Net Other-Than-Temporary Impairment Losses on Investments in the Statements of Income. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis. Payment shortfalls, net of insurance recoveries, on asset-backed securities have totaled only $13.5 million life to date ($2.9 million in 2011), compared to total other-than-temporary credit related impairment charges life to date of $38.0 million ($2.2 million in 2011). Total other-than-temporary credit related impairment charges on non-agency CMOs have totaled $11.8 million life to date ($2.3 million in 2011). There have been no payment shortfalls on non-agency CMOs. See Note 2, *Investment Securities*, in the Notes to the Financial Statements for further information.

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

Capital Resources

Total District shareholders' equity increased $108.4 million (2.61 percent) from December 31, 2010 to March 31, 2011. This increase is primarily attributed to 2011 unallocated retained earnings from net income of $135.5 million. Offsetting these increases was a reduction of $16.9 million in net unrealized gains during 2011 on investments available-for-sale, a component of AOCI, and a reduction to equity due to merger accounting adjustments of $11.6 million. The merger accounting adjustments represent the net amount to fair value assets and liabilities of the two merged Associations. See Note 11, *District Merger Activity*, in the Notes to the Combined Financial Statements for further information.

As of March 31, 2011, AgFirst and all of the District Associations exceeded the applicable minimum permanent capital, core surplus, total surplus, and net collateral ratio requirements established by FCA Regulations.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2011 was $135.5 million, compared to $178.3 million at March 31, 2010, a decrease of $42.7 million, or 23.98 percent. The overall decrease for the three month period is discussed below.

Key results of operations comparisons

	Annualized for the three months ended March 31, 2011	For the year ended December 31, 2010	Annualized for the three months ended March 31, 2010
Return on average assets	1.67%	1.66%	2.18%
Return on average shareholders' equity	12.93%	13.67%	19.34%
Net interest income as a percentage of average earning assets	3.48%	3.31%	3.25%
Net (charge-offs) recoveries to average loans	(0.281)%	(0.658)%	(0.412)%

Net Interest Income

Net interest income for the three months ended March 31, 2011 was $270.3 million compared to $255.7 million for the same period of 2010, an increase of $14.6 million or 5.73 percent. The net interest margin was 3.48 percent in the current year three month period, an improvement of 23 basis over the 3.25 percent in the same period of 2010. Spreads improved for several reasons, but primarily resulted from called debt being replaced by new debt issued at a lower rate of interest, decreasing funding costs. Change in net interest income due to the change in balance sheet volume was minimal as a result of decreased loan demand previously discussed. Prospectively, as assets reprice in the lower interest rate environment, spreads and margins will narrow which can negatively affect net interest income.

The following table illustrates the changes in net interest income:

	For the three months ended March 31, 2011 vs. March 31, 2010		
	Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total
Interest Income:			
Loans	$ (1,086)	$ (6,882)	$ (7,968)
Investments & Cash Equivalents	(2,101)	1,582	(519)
Total Interest Income	(3,187)	(5,300)	(8,487)
Interest Expense:			
Interest-Bearing Liabilities	(3,127)	(19,997)	(23,124)
Changes in Net Interest Income	$ (60)	$ 14,697	$ 14,637

Provision for Loan Losses

The District measures risks inherent in its portfolio on an ongoing basis and as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. The net provision for loan losses was $33.7 million for the three month period ended March 31, 2011, compared to $18.2 million for the same period in 2010. Provision expense for the three month period ended March 31, 2011 was comprised of $28.1 million related to specific reserves and $5.5 million related to general reserves. Provision expense for the first quarter of 2011 primarily related to borrowers in the ethanol (35.35 percent of the total), cattle (21.37 percent), and other real estate (19.77 percent) segments. As mentioned previously, declining real estate values were, in part, the reason for some of the provision expense recognized by the District. See Note 3, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended March 31,**		
(dollars in thousands)	**2011**	**2010**	**Increase/ (Decrease)**
Loan fees	$ 10,191	$ 10,855	$ (664)
Fees for financially related services	1,245	1,420	(175)
Gains (losses) from other property owned, net	(10,446)	(565)	(9,881)
Gains (losses) on investments, net	–	1,483	(1,483)
Net impairment losses on investments	(4,458)	(6,758)	2,300
Gains (losses) on sale of rural home loans, net	349	360	(11)
Gains from sale of premises and equipment, net	100	83	17
Patronage refunds from other Farm Credit institutions	132	629	(497)
Insurance premium refund	–	34,327	(34,327)
Other noninterest income	2,295	1,546	749
Total noninterest income	$ (592)	$ 43,380	$ (43,972)

The decrease of total net noninterest income of $44.0 million for the three months ended March 31, 2011 was due primarily to the District's recording $34.3 million of insurance premium refunds during the first quarter of 2010 from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. No refunds were received during the first quarter of 2011. The decrease in net noninterest income was also due to $10.4 million in write-downs of other property owned for the period ended March 31, 2011, compared to $565 thousand in write-downs for the period ended March 31, 2010. See discussion in *Other Property Owned* section above. Also, adding to the decrease in noninterest income were gains of $1.5 million on the sales of investment securities during the first quarter of 2010. These sales were the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio. There were no sales of investments during the first quarter of 2011. Offsetting the decreases to noninterest income was a decrease of $2.3 million in the recognition of credit related other-than-temporary impairment on several of the Bank's investment securities during the first quarter of 2011 as compared to the first quarter of 2010. See discussion of 2011 credit related other-than-temporary impairment above. Also, other noninterest income improved $749 thousand primarily due to a system captive insurance company allocated loss based on claims experience that was reflected in other noninterest income in 2010.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	**For the three months ended March 31,**		
(dollars in thousands)	**2011**	**2010**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 63,521	$ 60,147	$ 3,374
Occupancy and equipment	8,666	8,761	(95)
Insurance Fund premium	3,465	6,100	(2,635)
Other operating expenses	20,876	19,664	1,212
Called debt expense	1,443	5,785	(4,342)
Correspondent lending servicing expense	2,265	1,945	320
Other noninterest expense	70	69	1
Total noninterest expense	$ 100,306	$ 102,471	$ (2,165)

Noninterest expense for the three months ended March 31, 2011 was $100.3 million, which reflected a decrease of $2.2 million compared to the corresponding period in 2010. The decrease of $2.2 million for the three month period was due primarily to the decrease in insurance fund premiums and called debt expense, offset by an increase in salaries and employee benefits.

Insurance Fund premiums decreased $2.6 million (43.20 percent) for the three month period due primarily to a change in the premium rate charged. The 2011 base annual premium rate is 6 basis points compared to the 10 basis points charged during the first quarter of 2010.

Other operating expenses are comprised of numerous and varied expenses, none of which individually had a significant increase in the first quarter of 2011 compared to the first quarter of 2010.

Concession or debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized concession is expensed. Called debt expense decreased $4.3 million (75.06 percent) for the three month period as less debt was available to be called. Call options were exercised on bonds totaling $2.546 billion for the first quarter of 2011 compared to $4.729 billion for the first quarter of 2010. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

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

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

REGULATORY MATTERS

The FCA entered into written supervisory agreements with two District Associations in 2010 and one additional District Association during 2011. During 2011, the FCA entered into a new written supervisory agreement with a District Association which replaced a prior agreement issued in 2010. The combined assets of these three Associations totaled less than $980.0 million at March 31, 2011. The written supervisory agreements require those District Associations to take corrective actions with respect to certain areas of their operations, including capital, portfolio management, and asset quality. These enforcement actions are not expected to have a significant impact on the Bank's or District's financial condition or results of operations. While the FCA has not taken any other enforcement actions against the Bank or other District Associations during 2011, three additional District Associations were subject to special supervision by the FCA at March 31, 2011, subjecting them to additional regulatory scrutiny.

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

Financial Regulatory Reform

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

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

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

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

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

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

DISTRICT MERGER ACTIVITY

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Combined Balance Sheets

(dollars in thousands)	March 31, 2011	December 31, 2010
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	**$ 451,960**	$ 1,463,700
Investment securities:		
Available for sale (amortized cost of $7,069,755 and $6,981,952 respectively)	**7,096,232**	7,025,290
Held to maturity (fair value of $1,221,798 and $1,298,088 respectively)	**1,160,350**	1,234,262
Total investment securities	**8,256,582**	8,259,552
Loans	**22,802,206**	23,032,893
Less: allowance for loan losses	**184,130**	182,329
Net loans	**22,618,076**	22,850,564
Loans held for sale	**7,483**	11,340
Other investments	**228,060**	305,959
Accrued interest receivable	**190,396**	195,966
Investments in other Farm Credit System institutions	**11,699**	11,479
Premises and equipment, net	**125,045**	125,695
Other property owned	**148,353**	146,416
Other assets	**152,423**	179,336
Total assets	**$ 32,190,077**	$ 33,550,007
Liabilities		
Bonds and notes	**$ 27,063,555**	$ 28,525,569
Mandatorily redeemable preferred stock	**225,000**	225,000
Accrued interest and dividend payable	**71,585**	57,943
Dividends and patronage refunds payable	**9,995**	98,694
Pension and other postretirement benefits liability	**342,022**	336,741
Advanced conditional payments	**7,611**	6,842
Other liabilities	**205,194**	142,538
Total liabilities	**27,924,962**	29,393,327
Commitments and contingencies (Note 6)		
Shareholders' Equity		
Perpetual preferred stock	**400,000**	400,000
Protected borrower equity	**3,452**	3,641
Capital stock and participation certificates	**152,932**	150,031
Additional paid in capital (Note 11)	**19,904**	—
Retained earnings		
Allocated	**1,313,740**	1,318,996
Unallocated	**2,677,945**	2,575,592
Accumulated other comprehensive income (loss)	**(302,858)**	(291,580)
Total shareholders' equity	**4,265,115**	4,156,680
Total liabilities and equity	**$ 32,190,077**	$ 33,550,007

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2011	2010
Interest Income		
Investment securities	**$ 50,964**	$ 50,423
Loans	**297,108**	305,076
Other	**2,869**	3,929
Total interest income	**350,941**	359,428
Interest Expense	**80,639**	103,763
Net interest income	**270,302**	255,665
Provision for loan losses	**33,671**	18,192
Net interest income after provision for loan losses	**236,631**	237,473
Noninterest Income		
Loan fees	**10,191**	10,855
Fees for financially related services	**1,245**	1,420
Gains (losses) from other property owned, net	**(10,446)**	(565)
Gains (losses) on investments, net	**—**	1,483
Total other-than-temporary impairment losses on investments (Note 2)	**(2,477)**	(1,930)
Portion of loss recognized in other comprehensive income (loss) (Note 2)	**(1,981)**	(4,828)
Net other-than-temporary impairment losses on investments	**(4,458)**	(6,758)
Gains (losses) on sale of rural home loans, net	**349**	360
Gains from sale of premises and equipment, net	**100**	83
Patronage refunds from other Farm Credit institutions	**132**	629
Insurance premium refund	**—**	34,327
Other noninterest income	**2,295**	1,546
Total noninterest income	**(592)**	43,380
Noninterest Expenses		
Salaries and employee benefits	**63,521**	60,147
Occupancy and equipment	**8,666**	8,761
Insurance Fund premiums	**3,465**	6,100
Other operating expenses	**20,876**	19,664
Called debt expense	**1,443**	5,785
Correspondent lending servicing expense	**2,265**	1,945
Other noninterest expense	**70**	69
Total noninterest expenses	**100,306**	102,471
Income before income taxes	**135,733**	178,382
Provision (benefit) for income taxes	**198**	103
Net income	**$ 135,535**	$ 178,279

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Additional Paid in Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2009	$ 400,000	$ 4,205	$ 138,504	$ —	$ 1,199,441	$ 2,323,523	$ (438,646)	$ 3,627,027
Comprehensive income								
Net income						178,279		178,279
Unrealized gains (losses) on investments available for sale:								
Other-than-temporarily impaired (Note 2)							4,539	
Not-other-than-temporarily impaired (Note 2)							36,623	
Total unrealized gains (losses) on investments available for sale								41,162
Employee benefit plans adjustments							6,694	6,694
Total comprehensive loss								226,135
Protected borrower equity retired		(310)						(310)
Capital stock/participation certificates issued (retired), net			6,721					6,721
Dividends declared/paid			181			(181)		—
Patronage distribution								
Cash						(2,099)		(2,099)
Retained earnings retired					(4,809)			(4,809)
Patronage distribution adjustment					(759)	814		55
Balance at March 31, 2010	$ 400,000	$ 3,895	$ 145,406	$ —	$ 1,193,873	$ 2,500,336	$ (390,790)	$ 3,852,720
Balance at December 31, 2010	$ 400,000	$ 3,641	$ 150,031	$ —	$ 1,318,996	$ 2,575,592	$ (291,580)	$ 4,156,680
Comprehensive income								
Net income						**135,535**		**135,535**
Unrealized gains (losses) on investments available for sale:								
Other-than-temporarily impaired (Note 2)							**(1,487)**	
Not other-than-temporarily impaired (Note 2)							**(15,373)**	
Total unrealized gains (losses) on investments available for sale								**(16,860)**
Change in value of firm commitments - when issued securities (Note 8)							**(1,752)**	**(1,752)**
Employee benefit plans adjustments							**7,334**	**7,334**
Total comprehensive income								**124,257**
Protected borrower equity retired		**(189)**						**(189)**
Capital stock/participation certificates issued (retired), net			**2,787**					**2,787**
Dividends declared/paid			**121**			**(195)**		**(74)**
Patronage distribution								
Cash						**(3,010)**		**(3,010)**
Retained earnings retired					**(5,011)**			**(5,011)**
Equity issued as result of merger (Note 11)		**267**	**1,936**	**19,904**				**22,107**
Equity retired as result of merger		**(267)**	**(1,936)**			**(31,458)**		**(33,661)**
Patronage distribution adjustment			**(7)**		**(245)**	**1,481**		**1,229**
Balance at March 31, 2011	**$ 400,000**	**$ 3,452**	**$ 152,932**	**$ 19,904**	**$ 1,313,740**	**$ 2,677,945**	**$ (302,858)**	**$ 4,265,115**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2011	2010
Cash flows from operating activities:		
Net income	**$ 135,535**	$ 178,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**4,236**	4,490
Amortization of net deferred loan origination (fees) costs	**(3,051)**	(3,303)
Premium amortization (discount accretion) on investment securities	**4,776**	5,498
(Premium amortization) discount accretion on bonds and notes	**380**	(4,003)
Provision for (reversal of) loan losses	**33,671**	18,192
(Gains) losses on other property owned	**10,446**	565
(Gains) losses from sale of premises and equipment, net	**(100)**	(83)
Net impairment losses on investments	**4,458**	6,758
(Gains) losses on investments, net	**—**	(1,483)
Gains (losses) on sales of rural home loans, net	**(349)**	(360)
Net change in loans held for sale	**12,093**	4,588
(Increase) decrease in accrued interest receivable	**5,570**	8,971
(Increase) decrease in other assets	**15,343**	(28,487)
Increase (decrease) in accrued interest payable	**13,642**	(739)
Increase (decrease) in pension and other postretirement benefits liability	**5,161**	5,704
Increase (decrease) in other liabilities	**65,532**	2,231
Total adjustments	**171,808**	18,539
Net cash provided by (used in) operating activities	**307,343**	196,818
Cash flows from investing activities:		
Investment securities purchased	**(494,662)**	(603,653)
Investment securities sold or matured	**470,765**	662,583
Net (increase) decrease in loans	**163,736**	339,167
(Increase) decrease in investments in other Farm Credit System institutions	**(220)**	11,581
Purchases of other investments	**(1,281)**	(1,778)
Proceeds from payments received on other investments	**82,542**	81,346
Purchase of premises and equipment, net	**(3,624)**	(2,953)
Proceeds from sale of premises and equipment, net	**138**	142
Proceeds from sale of other property owned	**11,235**	12,166
Net cash provided by (used in) investing activities	**228,629**	498,601
Cash flows from financing activities:		
Bonds and notes issued	**6,457,248**	14,810,340
Bonds and notes retired	**(7,912,762)**	(15,487,473)
Net increase (decrease) in advanced conditional payments	**769**	4,846
Protected borrower equity retired	**(189)**	(310)
Capital stock and participation certificates issued/retired, net	**2,787**	6,721
Patronage refunds and dividends paid	**(90,554)**	(74,623)
Retained earnings retired	**(5,011)**	(4,809)
Net cash provided by (used in) financing activities	**(1,547,712)**	(745,308)
Net increase (decrease) in cash and cash equivalents	**(1,011,740)**	(49,889)
Cash and cash equivalents, beginning of period	**1,463,700**	981,041
Cash and cash equivalents, end of period	**$ 451,960**	$ 931,152
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	**$ 880**	$ 2,522
Loans transferred to other property owned	**24,498**	12,486
Change in unrealized gains (losses) on investments, net	**(16,860)**	41,162
Employee benefit plans adjustments	**7,334**	6,694
Equity issued as result of merger (Note 11)	**22,107**	—
Equity retired as result of merger	**(33,661)**	—
Adjustment of allowance for loan losses related to Association mergers (Note 3)	**(16,097)**	—
Change in fair value of derivative instruments (Note 8)	**(8,493)**	—
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	**$ (11,570)**	$ (1,655)
Decrease (increase) in other assets	**11,570**	1,884
Increase (decrease) in other liabilities	**—**	(229)
Supplemental information:		
Interest paid	**$ 66,617**	$ 108,505
Taxes paid, net	**249**	268

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

Notes to the Combined Financial Statements

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

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

Organization and Significant Accounting Policies

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

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

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

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

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

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

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

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

Recently Issued Accounting Pronouncements

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The FASB noted that the effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring would be coordinated.

In April 2011, the FASB issued guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring (TDR). In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For public entities, the guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment of those receivables, an entity should apply the guidance prospectively for the first interim or annual period beginning on or after June 15, 2011. In addition, the delayed TDR disclosures referenced above are also effective for the first interim or annual period beginning on or after June 15, 2011. The impact of adoption of this guidance, if any, is expected to be immaterial to the District's financial condition and results of operations, but it will result in additional disclosures.

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

Effective January 1, 2010, the District 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 District's financial condition and results of operations but resulted in additional disclosures (see Note 4).

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

NOTE 2 — INVESTMENT SECURITIES

Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments at March 31, 2011 and December 31, 2010 follows:

	March 31, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. GNMA MBS/CMOs	$ 5,079,692	$ 100,870	$ (14,001)	$ 5,166,561	2.48%
U.S. Govt. Agency MBS	1,617,968	25,721	(19,482)	1,624,207	1.44
Non-Agency CMOs (a)	331,099	–	(57,403)	273,696	0.63
Commercial MBS	1,230	–	(268)	962	6.49
Asset-Backed Securities (a)	39,766	1,494	(10,454)	30,806	0.74
Total	$ 7,069,755	$ 128,085	$ (101,608)	$ 7,096,232	2.15%

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

(a) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of $15.5 million for Non-Agency CMOs and $8.5 million for Asset-Backed Securities.

(b) Gross unrealized losses include non-credit related other-than temporary impairment recognized in AOCI of $14.2 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 at March 31, 2011 and December 31, 2010 follows:

	March 31, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. Agency MBS	$ 839,442	$ 49,866	$ (231)	$ 889,077	5.24%
Asset-Backed Securities	79,799	748	(546)	80,001	1.56
Mission Related Investments	241,109	12,737	(1,126)	252,720	6.08
Total	$ 1,160,350	$ 63,351	$ (1,903)	$ 1,221,798	5.16%

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

A summary of the expected maturity, estimated fair value and amortized cost of investment securities at March 31, 2011 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield
U.S. Govt. GNMA MBS/CMOs	$ –	– %	$ –	– %	$ 1,192	0.68 %	$ 5,165,369	2.48 %	$ 5,166,561	2.48 %
U.S. Govt. Agency MBS	–	–	19,006	4.71	42,935	0.73	1,562,266	1.42	1,624,207	1.44
Non-Agency CMOs	–	–	–	–	–	–	273,696	0.63	273,696	0.63
Commercial MBS	–	–	–	–	–	–	962	6.49	962	6.49
Asset-Backed Securities	–	–	–	–	–	–	30,806	0.74	30,806	0.74
Total fair value	$ –	– %	$ 19,006	4.71 %	$ 44,127	0.72 %	$ 7,033,099	2.15 %	$ 7,096,232	2.15 %
Total amortized cost	$ –		$ 17,823		$ 43,988		$ 7,007,944		$ 7,069,755	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield	Amount	Contractual Yield
U.S. Govt. Agency MBS	$ –	– %	$ –	– %	$ 1,649	4.97 %	$ 837,793	5.24 %	$ 839,442	5.24 %
Asset-Backed Securities	1,787	1.94	10,606	1.32	49,766	1.55	17,640	1.70	79,799	1.56
Mission Related Investments	–	–	25,031	6.64	33,400	6.10	182,678	6.00	241,109	6.08
Total amortized cost	$ 1,787	1.94 %	$ 35,637	5.06 %	$ 84,815	3.41 %	$ 1,038,111	5.31 %	$ 1,160,350	5.16 %
Total fair value	$ 1,790		$ 37,121		$ 87,509		$ 1,095,378		$ 1,221,798	

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

There were no sales of investment securities during the first quarter of 2011. During the first quarter of 2010, proceeds from sales of investment securities were $76.3 million and net realized gains were $1.5 million.

AgFirst's and certain District Association 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 District's MBSs are collateralized by U.S. government or U.S. agency guaranteed residential mortgages and all were rated AAA/Aaa at March 31, 2011. Non-agency CMO securities not rated in the top category by at least one of the NRSROs at March 31, 2011 had a fair value of $193.4 million. ABSs not rated in the top category by at least one of the NRSROs at March 31, 2011 had a fair value of $20.9 million. For each of these investment securities in the District's portfolio rated below AAA/Aaa, the District has developed and submitted plans for approval by the FCA that provide that the securities may be held to maturity. The FCA has approved, with conditions, the District's plans for all but five investments that have recently become ineligible. The District has submitted a plan to hold these five investments to the FCA for approval and is awaiting a response.

The fair value of all investments at March 31, 2011 split rated AAA/Aaa or lower by the NRSROs totaled $293.2 million (amortized cost of $358.5 million). This represents approximately 3.52 percent (and 4.36 percent) of total fair value (and amortized cost) of the District's total investment portfolio at March 31, 2011. Split rated AAA/Aaa is defined as a security maintaining different ratings by the NRSROs with at least one NRSRO rating the security AAA/Aaa.

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

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

	March 31, 2011					
	Less than 12 Months		**Greater than 12 Months**		**Total**	
(dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Govt. GNMA MBS/CMOs	$ 1,033,465	$ (9,632)	$ 299,437	$ (4,369)	$ 1,332,902	$ (14,001)
U.S. Govt. Agency MBS	257,880	(1,715)	587,435	(17,998)	845,315	(19,713)
Non-Agency CMOs	2,750	(91)	270,946	(57,312)	273,696	(57,403)
Asset-Backed Securities	4,873	(62)	50,655	(10,938)	55,528	(11,000)
Mortgage-Backed Securities	–	–	962	(268)	962	(268)
Mission Related Investments	93,905	(1,047)	4,930	(79)	98,835	(1,126)
Total	$ 1,392,873	$ (12,547)	$ 1,214,365	$ (90,964)	$ 2,607,238	$ (103,511)

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

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

The District performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes. Based on the results of all analyses, the District has recognized total other-than-temporary impairment during the first quarter of 2011 of $2.5 million in connection with ABS securities and non-agency CMO securities in its portfolio, which is included in Impairment Losses on Investments in the Combined Statements of Income.

Since the District does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the other-than temporary impairment of $2.5 million is separated into: (1) the estimated amount relating to credit loss ($4.5 million reflected in Net Income in the Statements of Income), which is partially offset by (2) the amount relating to all other factors ($2.0 million reflected in other comprehensive income in the Statement of Changes in Shareholders' Equity).

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

Significant inputs used in this technique to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The District obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The forecasted cumulative default rates used at March 31, 2011 ranged from 2.21 percent to 53.07 percent for non-agency CMO securities and from 37.25 percent to 88.00 percent for ABS securities. Prepayment rate assumptions are based on forecasted prepayments and resulted in prepayment rates that ranged from 2.79 percent to 9.16 percent for non-agency CMO securities and from 3.40 percent to 8.16 percent for ABS securities at March 31, 2011. At March 31, 2011, the loss severity rates estimated from assumptions ranged from 5.79 percent to 65.57 percent for non-agency CMO securities and from 65.92 percent to100.00 percent for ABS securities.

For all investments, other than the other-than-temporarily impaired securities discussed above, the District has not recognized any other-than-temporary impairment as the unrealized losses resulted from non-credit related factors. The District has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. government agency securities and the District expects these securities would not be settled at a price less than their amortized cost. For the three months ended March 31, 2011, net unrealized losses of $15.4 million were recognized in other comprehensive income for not other-than-temporarily impaired available-for-sale investments.

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

(dollars in thousands)	**For the three months ended March 31, 2011**
Beginning balance at January 1, 2011	$ 45,077
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	1,463
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	2,994
Reductions for increases in expected cash flows	(352)
Ending balance at March 31, 2011	$ 49,182

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

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

A summary of loans outstanding follows:

(dollars in thousands)	March 31, 2011	December 31, 2010
Real estate mortgage	$ 9,914,087	$ 9,986,760
Production and intermediate-term	7,744,947	8,105,060
Agribusiness		
Loans to cooperatives	472,821	304,161
Processing and marketing	1,313,788	1,355,811
Farm-related business	345,335	342,984
Total agribusiness	2,131,944	2,002,956
Communication	206,995	200,578
Energy	336,173	342,614
Water and waste disposal	28,022	28,024
Rural residential real estate	2,331,202	2,258,480
Lease receivables	9,654	10,697
Loans to other financial institutions (OFIs)	8,000	5,000
Other (including mission-related)	91,182	92,724
Total Loans	$ 22,802,206	$ 23,032,893

The District may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. The following tables present the changes in the principal balance of participations purchased and sold for the quarter ended March 31, 2011:

Beginning Balance at December 31, 2010

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,129,900	$ 1,107,238	$ 140,835	$ 54,335	$ 346,913	$ 29,115	$ 1,617,648	$ 1,190,688
Production and intermediate-term	963,190	903,496	278,402	348,640	359,187	3,396	1,600,779	1,255,532
Agribusiness								
Loans to cooperatives	27,657	12,971	227,828	–	38,628	–	294,113	12,971
Processing and marketing	114,003	55,122	443,756	33,961	669,883	28,599	1,227,642	117,682
Farm-related business	47,028	33,811	58,881	5,975	39,893	–	145,802	39,786
Total agribusiness	188,688	101,904	730,465	39,936	748,404	28,599	1,667,557	170,439
Communication	18,764	13,099	198,433	–	–	–	217,197	13,099
Energy	9,884	8,087	315,137	–	22,434	–	347,455	8,087
Water and waste disposal	–	–	28,000	–	–	–	28,000	–
Rural residential real estate	–	–	–	–	539	–	539	–
Lease receivables	–	–	3,565	–	–	–	3,565	–
Loans to OFIs	–	–	–	–	5,000	–	5,000	–
Other (including mission-related)	9,428	9,428	–	–	11,759	–	21,187	9,428
Total	$ 2,319,854	$ 2,143,252	$ 1,694,837	$ 442,911	$ 1,494,236	$ 61,110	$ 5,508,927	$ 2,647,273

Purchases and sales for the quarter ended March 31, 2011

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 7,243	$ 36,750	$ –	$ –	$ –	$ 100	$ 7,243	$ 36,850
Production and intermediate-term	2,533	31,004	1,237	–	798	173	4,568	31,177
Agribusiness								
Loans to cooperatives	5,070	–	20,584	–	–	–	25,654	–
Processing and marketing	10,198	1,581	1,584	–	–	–	11,782	1,581
Farm-related business	508	1,111	–	–	–	–	508	1,111
Total agribusiness	15,776	2,692	22,168	–	–	–	37,944	2,692
Communication	1,327	–	794	–	–	–	2,121	–
Energy	252	–	1,375	–	–	–	1,627	–
Water and waste disposal	–	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–	–
Lease receivables	–	–	–	–	–	–	–	–
Loans to OFIs	–	–	–	–	–	–	–	–
Other (including mission-related)	–	–	–	–	–	–	–	–
Total	$ 27,131	$ 70,446	$ 25,574	$ –	$ 798	$ 273	$ 53,503	$ 70,719

Other activity for the quarter ended March 31, 2011

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ (21,112)	$ 73,615	$ (13,943)	$ 15,324	$ (221,300)	$ (23,863)	$ (256,355)	$ 65,076
Production and intermediate-term	312,304	431,049	27,052	(28,986)	213,564	28,179	552,920	430,242
Agribusiness								
Loans to cooperatives	8,225	61,076	195,501	–	(4,161)	–	199,565	61,076
Processing and marketing	165,900	271,078	(45,566)	(9,172)	(31,178)	(38)	89,156	261,868
Farm-related business	652	24,408	8,186	(390)	1,313	–	10,151	24,018
Total agribusiness	174,777	356,562	158,121	(9,562)	(34,026)	(38)	298,872	346,962
Communication	(7,385)	12,764	7,894	–	–	–	509	12,764
Energy	4,405	9,539	(7,081)	–	(2,098)	–	(4,774)	9,539
Water and waste disposal	–	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	(4)	–	(4)	–
Lease receivables	5,369	–	(925)	–	–	–	4,444	–
Loans to OFIs	–	–	–	–	3,000	–	3,000	–
Other (including mission-related)	12,868	(74)	–	–	(1,110)	–	11,758	(74)
Total	$ 481,226	$ 883,455	$ 171,118	$ (23,224)	$ (41,974)	$ 4,278	$ 610,370	$ 864,509

	Ending balance at March 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,116,031	$ 1,217,603	$ 126,892	$ 69,659	$ 125,613	$ 5,352	$ 1,368,536	$ 1,292,614
Production and intermediate-term	1,278,027	1,365,549	306,691	319,654	573,549	31,748	2,158,267	1,716,951
Agribusiness								
Loans to cooperatives	40,952	74,047	443,913	–	34,467	–	519,332	74,047
Processing and marketing	290,101	327,781	399,774	24,789	638,705	28,561	1,328,580	381,131
Farm-related business	48,188	59,330	67,067	5,585	41,206	–	156,461	64,915
Total agribusiness	379,241	461,158	910,754	30,374	714,378	28,561	2,004,373	520,093
Communication	12,706	25,863	207,121	–	–	–	219,827	25,863
Energy	14,541	17,626	309,431	–	20,336	–	344,308	17,626
Water and waste disposal	–	–	28,000	–	–	–	28,000	–
Rural residential real estate	–	–	–	–	535	–	535	–
Lease receivables	5,369	–	2,640	–	–	–	8,009	–
Loans to OFIs	–	–	–	–	8,000	–	8,000	–
Other (including mission-related)	22,296	9,354	–	–	10,649	–	32,945	9,354
Total	$ 2,828,211	$ 3,097,153	$ 1,891,529	$ 419,687	$ 1,453,060	$ 65,661	$ 6,172,800	$ 3,582,501

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

A significant source of liquidity for the District is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at March 31, 2011 and indicates that approximately 21.12 percent of loans had maturities of one year or less:

(dollars in thousands)	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 985,824	$ 2,890,108	$ 6,038,155	$ 9,914,087
Production and intermediate-term	2,693,470	3,165,125	1,886,352	7,744,947
Agribusiness				
Loans to cooperatives	255,280	160,625	56,916	472,821
Processing and marketing	567,313	536,523	209,952	1,313,788
Farm-related business	118,490	156,985	69,860	345,335
Total agribusiness	941,083	854,133	336,728	2,131,944
Communication	83,174	101,240	22,581	206,995
Energy	66,638	110,387	159,148	336,173
Water and waste disposal	22	–	28,000	28,022
Rural residential real estate	33,804	80,082	2,217,316	2,331,202
Lease receivables	7,476	1,997	181	9,654
Loans to OFIs	–	8,000	–	8,000
Other (including mission-related)	3,266	4,919	82,997	91,182
Total Loans	$ 4,814,757	$ 7,215,991	$ 10,771,458	$ 22,802,206

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

	March 31, 2011	December 31, 2010
Real estate mortgage:		
Acceptable	87.43%	87.46%
OAEM	5.63	5.48
Substandard/doubtful/loss	6.94	7.06
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	83.78%	83.80%
OAEM	8.03	9.10
Substandard/doubtful/loss	8.19	7.10
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	90.53%	86.38%
OAEM	8.70	11.93
Substandard/doubtful/loss	0.77	1.69
	100.00%	100.00%
Processing and marketing:		
Acceptable	76.08%	76.94%
OAEM	9.97	12.08
Substandard/doubtful/loss	13.95	10.98
	100.00%	100.00%
Farm-related business:		
Acceptable	92.10%	92.55%
OAEM	5.15	3.58
Substandard/doubtful/loss	2.75	3.87
	100.00%	100.00%
Total Agribusiness		
Acceptable	81.88%	81.05%
OAEM	8.91	10.60
Substandard/doubtful/loss	9.21	8.35
	100.00%	100.00%

	March 31, 2011	December 31, 2010
Communication:		
Acceptable	100.00%	98.83%
OAEM	–	–
Substandard/doubtful/loss	–	1.17
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	95.59%	95.64%
OAEM	0.69	3.26
Substandard/doubtful/loss	3.72	1.10
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.48%	98.40%
OAEM	0.54	0.57
Substandard/doubtful/loss	0.98	1.03
	100.00%	100.00%
Lease receivables:		
Acceptable	89.35%	92.48%
OAEM	4.15	2.51
Substandard/doubtful/loss	6.50	5.01
	100.00%	100.00%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including mission-related)		
Acceptable	76.73%	77.07%
OAEM	7.95	7.91
Substandard/doubtful/loss	15.32	15.02
	100.00%	100.00%
Total Loans:		
Acceptable	87.00%	86.87%
OAEM	6.11	6.65
Substandard/doubtful/loss	6.89	6.48
	100.00%	100.00%

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

	March 31, 2011					
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 116,147	$ 272,385	$ 388,532	$ 9,610,249	$ 9,998,781	$ 16,740
Production and intermediate-term	76,512	203,640	280,152	7,527,722	7,807,874	6,470
Agribusiness						
Loans to cooperatives	–	3,651	3,651	471,090	474,741	–
Processing and marketing	1,937	1,620	3,557	1,315,983	1,319,540	–
Farm-related business	1,033	7,503	8,536	338,584	347,120	–
Total agribusiness	2,970	12,774	15,744	2,125,657	2,141,401	–
Communication	–	–	–	207,369	207,369	–
Energy and water/waste disposal	–	–	–	366,608	366,608	–
Rural residential real estate	35,748	8,240	43,988	2,296,026	2,340,014	1,772
Lease receivables	65	154	219	9,481	9,700	–
Loans to OFIs	–	–	–	8,011	8,011	–
Other (including mission-related)	148	5,551	5,699	86,489	92,188	–
Total	$ 231,590	$ 502,744	$ 734,334	$ 22,237,612	$ 22,971,946	$ 24,982

(dollars in thousands)	December 31, 2010 30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 106,498	$ 272,080	$ 378,578	$ 9,692,300	$ 10,070,878	$ 4,604
Production and intermediate-term	82,377	173,946	256,323	7,921,721	8,178,044	1,195
Agribusiness						
Loans to cooperatives	–	4,907	4,907	300,486	305,393	–
Processing and marketing	4,944	1,156	6,100	1,354,210	1,360,310	–
Farm-related business	484	7,668	8,152	336,435	344,587	–
Total agribusiness	5,428	13,731	19,159	1,991,131	2,010,290	–
Communication	–	–	–	200,910	200,910	–
Energy and water/waste disposal	–	–	–	372,618	372,618	–
Rural residential real estate	46,403	13,157	59,560	2,207,139	2,266,699	6,374
Lease receivables	81	90	171	10,596	10,767	–
Loans to OFIs	–	–	–	5,008	5,008	–
Other (including mission-related)	–	6,040	6,040	87,502	93,542	543
Total	$ 240,787	$ 479,044	$ 719,831	$ 22,488,925	$ 23,208,756	$ 12,716

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

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

(dollars in thousands)	March 31, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	$ 390,174	$ 405,976
Production and intermediate-term	325,638	317,832
Agribusiness		
Loans to cooperatives	3,637	4,911
Processing and marketing	59,155	36,302
Farm-related business	8,205	8,195
Total agribusiness	70,997	49,408
Communication	–	2,358
Energy and water/waste disposal	9,553	–
Rural residential real estate	12,310	12,246
Lease receivables	406	279
Other (including mission-related)	7,003	6,977
Total nonaccrual loans	$ 816,081	$ 795,076
Accruing restructured loans:		
Real estate mortgage	$ 7,638	$ 7,730
Production and intermediate-term	1,392	10,818
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	33,044	30,683
Farm-related business	–	–
Total agribusiness	33,044	30,683
Communication	–	–
Rural residential real estate	–	–
Lease receivables	–	–
Other (including mission-related)	–	–
Total accruing restructured loans	$ 42,074	$ 49,231
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 16,740	$ 4,604
Production and intermediate-term	6,470	1,195
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Farm-related business	–	–
Total agribusiness	–	–
Communication	–	–
Rural residential real estate	1,772	6,374
Lease receivables	–	–
Other (including mission-related)	–	543
Total accruing loans 90 days or more past due	$ 24,982	$ 12,716
Total nonperforming loans	$ 883,137	$ 857,023
Other property owned	148,353	146,416
Total nonperforming assets	$ 1,031,490	$ 1,003,439
Nonaccrual loans as a percentage of total loans	3.58%	3.45%
Nonperforming assets as a percentage of total loans and other property owned	4.49%	4.33%
Nonperforming assets as a percentage of capital	24.18%	24.14%

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

(dollars in thousands)	March 31, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	$ 268,726	$ 268,131
Past due	547,355	526,945
Total impaired nonaccrual loans	816,081	795,076
Impaired accrual loans:		
Restructured	42,074	49,231
90 days or more past due	24,982	12,716
Total impaired accrual loans	67,056	61,947
Total impaired loans	$ 883,137	$ 857,023

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

	March 31, 2011			Quarter Ended March 31, 2011	
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 130,931	$ 148,207	$ 24,584	$ 126,250	$ 306
Production and intermediate-term	178,724	204,052	40,462	168,182	397
Agribusiness					
Loans to cooperatives	747	742	145	720	2
Processing and marketing	53,591	59,537	10,761	51,972	104
Farm-related business	6,980	7,551	289	6,724	16
Total agribusiness	61,318	67,830	11,195	59,416	122
Energy and water/waste disposal	9,555	9,539	2,975	–	–
Rural residential real estate	4,625	6,290	1,008	4,456	11
Lease Receivables	136	154	68	131	–
Other (including mission-related)	1,546	1,552	650	1,546	–
Total	$ 386,835	$ 437,624	$ 80,942	$ 359,981	$ 836
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 283,621	$ 371,456	$ –	$ 264,241	$ 712
Production and intermediate-term	154,776	212,395	–	152,537	352
Agribusiness					
Loans to cooperatives	2,890	2,856	–	2,784	7
Processing and marketing	38,608	42,021	–	36,647	484
Farm-related business	1,225	3,625	–	1,180	3
Total agribusiness	42,723	48,502	–	40,611	494
Energy and water/waste disposal	(2)	–	–	9,203	22
Rural residential real estate	9,457	11,872	–	10,802	25
Lease receivables	270	293	–	260	1
Other (including mission-related)	5,457	5,365	–	5,130	13
Total	$ 496,302	$ 649,883	$ –	$ 482,784	$ 1,619
Total impaired loans:					
Real estate mortgage	$ 414,552	$ 519,663	$ 24,584	$ 390,491	$ 1,018
Production and intermediate-term	333,500	416,447	40,462	320,719	749
Agribusiness					
Loans to cooperatives	3,637	3,598	145	3,504	9
Processing and marketing	92,199	101,558	10,761	88,619	588
Farm-related business	8,205	11,176	289	7,904	19
Total agribusiness	104,041	116,332	11,195	100,027	616
Energy and water/waste disposal	9,553	9,539	2,975	9,203	22
Rural residential real estate	14,082	18,162	1,008	15,258	36
Lease receivables	406	447	68	391	1
Other (including mission-related)	7,003	6,917	650	6,676	13
Total	$ 883,137	$ 1,087,507	$ 80,942	$ 842,765	$ 2,455

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

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

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

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

(dollars in thousands)	Quarter Ended March 31, 2011	Quarter Ended March 31, 2010
Interest income which would have been recognized under the original loan terms	$ 16,067	$ 15,277
Less: interest income recognized	2,213	3,584
Foregone interest income	$ 13,854	$ 11,693

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

(dollars in thousands)	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	$ 73,636	$ 83,759	$ 19,735	$ 415	$ 599	$ 3,117	$ 67	$ 1,001	$ 182,329
Charge-offs	(6,237)	(9,714)	(1,183)	–	–	(709)	(20)	–	(17,863)
Recoveries	535	620	26	825	–	4	–	–	2,010
Provision for loan losses	9,140	14,968	6,496	(914)	3,100	530	53	298	33,671
Adjustment due to merger	(8,699)	(6,094)	(1,101)	(10)	–	(193)	–	–	(16,097)
Other	–	80	–	–	–	–	–	–	80
Balance at March 31, 2011	$ 68,375	$ 83,619	$ 23,973	$ 316	$ 3,699	$ 2,749	$ 100	$ 1,299	$ 184,130
March 31, 2011 allowance ending balance:									
Loans individually evaluated for impairment	$ 24,444	$ 39,892	$ 11,089	$ –	$ 2,976	$ 948	$ 68	$ 650	$ 80,067
Loans collectively evaluated for impairment	$ 43,792	$ 43,666	$ 12,778	$ 316	$ 723	$ 1,741	$ 32	$ 649	$ 103,697
Loans acquired with deteriorated credit quality	$ 139	$ 61	$ 106	$ –	$ –	$ 60	$ –	$ –	$ 366
Recorded investment in loans outstanding:									
Ending Balance at March 31, 2011	$ 9,998,781	$ 7,807,874	$ 2,141,401	$ 207,369	$ 366,608	$ 2,340,014	$ 9,700	$ 100,199	$ 22,971,946
March 31, 2011 recorded investment ending balance:									
Loans individually evaluated for impairment	$ 573,499	$ 653,880	$ 441,202	$ –	$ 94,964	$ 1,912,958	$ 5,762	$ 10,237	$ 3,692,502
Loans collectively evaluated for impairment	$ 9,382,886	$ 7,139,183	$ 1,696,278	$ 207,369	$ 271,644	$ 425,301	$ 3,938	$ 89,962	$ 19,216,561
Loans acquired with deteriorated credit quality	$ 42,396	$ 14,811	$ 3,921	$ –	$ –	$ 1,755	$ –	$ –	$ 62,883

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

Purchased Impaired Loans Disclosures

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

In connection with the merger, SFL (now FCFL) purchased impaired loans from NFL and SWFL. FCFL's valuation allowances for all these purchased impaired loans reflect only those losses incurred after acquisition—that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

FCFL acquires loans individually and in groups or portfolios. For certain acquired loans that have experienced deterioration of credit quality between origination and FCFL's acquisition of the loans, the amount paid for a loan reflects FCFL’s determination that it is probable FCFL will be unable to collect all amounts due according to the loan's contractual terms. At acquisition, FCFL reviewed each loan to determine whether there was evidence of deterioration of credit quality since origination and if it was probable that it would be unable to collect all amounts due according to the loan's contractual terms. If both conditions existed, FCFL determined whether each such loan was to be accounted for individually or whether such loans would be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination). FCFL considered expected prepayments, and estimated the amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and subsequently aggregated pool of loans. FCFL determined the excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount—representing the excess of the loan's cash flows expected to be collected over the amount paid is accreted into interest income over the remaining life of the loan or pool (accretable yield).

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

FCFL has loans not accounted for as debt securities that were acquired in a transfer, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is included in the balance sheet amounts of loans receivable at March 31, 2011. The amounts of loans at March 31, 2011 are as follows.

(dollars in thousands)		**March 31, 2011**
Real estate mortgage	$	45,755
Production and intermediate-term		16,530
Agribusiness		
Loans to cooperatives		–
Processing and marketing		3,094
Farm-related business		1,725
Total agribusiness		4,819
Communication		–
Energy		–
Rural residential real estate		1,755
Total Loans	$	68,859

During the quarter ended March 31, 2011, FCFL increased the allowance for loan losses by a charge to the income statement of $688 thousand for loans acquired with deteriorated credit quality. No allowances for loan losses were reversed during the quarter ended March 31, 2011.

Loans acquired during each year for which it was probable at acquisition that all contractually required payments would not be collected are summarized as follows.

(dollars in thousands)		**March 31, 2011**
Real estate mortgage	$	57,735
Production and intermediate-term		18,862
Agribusiness		
Loans to cooperatives		–
Processing and marketing		2,196
Farm-related business		1,734
Total agribusiness		3,930
Communication		–
Energy		–
Rural residential real estate		1,769
Total Loans	$	82,296

Certain of the loans acquired by FCFL in a business combination that are within the scope of purchased impaired loan guidance are not accounted for using the income recognition model because FCFL cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. As discussed previously, the real estate market in Florida is extremely unstable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, FCFL does not have the information necessary to reasonably estimate cash flows expected to be collected to compute its yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance. The purchase value of such impaired loans acquired during the year totaled $82.3 million. The carrying amount at March 31, 2011 was $68.9 million. These amounts are included in the carrying values, net of allowance, described above.

NOTE 4 — FAIR VALUE MEASUREMENT

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	March 31, 2011			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	$ –	$ 5,166,561	$ –	$ 5,166,561
U.S. Govt. Agency MBS	–	1,624,207	–	1,624,207
Non-Agency CMOs	–	–	273,696	273,696
Commercial MBS	–	962	–	962
Asset-backed securities	–	–	30,806	30,806
Total investments available-for-sale	–	6,791,730	304,502	7,096,232
Commercial paper, bankers' acceptances, CD's & others	–	53,688	–	53,688
Federal funds sold, securities purchased under resale agreements, and other	–	4,545	–	4,545
Interest rate swaps and other financial instruments	–	51,138	–	51,138
Assets held in trust funds	12,481	–	–	12,481
Total Assets	$ 12,481	$ 6,901,101	$ 304,502	$ 7,218,084
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ 749	$ –	$ 749
Collateral liabilities	–	16,885	–	16,885
Standby letters of credit	–	–	4,286	4,286
Total Liabilities	$ –	$ 17,634	$ 4,286	$ 21,920

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

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2011 and 2010. The District had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first three months of 2011 and 2010.

(dollars in thousands)	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2011	$ 34,437	$ 295,526	$ 3,336
Total gains or (losses) realized/unrealized:			
Included in earnings	(2,151)	(2,307)	–
Included in other comprehensive income (loss)	(193)	4,719	–
Purchases	–	–	–
Sales	–	–	–
Issuances	–	–	1,110
Settlements	(1,287)	(24,242)	(160)
Transfers in and/or out of level 3	–	–	–
Balance at March 31, 2011	$ 30,806	$ 273,696	$ 4,286

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

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

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

	March 31, 2011				
(dollars in thousands)	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 226,974	$ 226,974	$ (31,397)
Other property owned	–	–	47,181	47,181	(7,987)

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

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	March 31, 2011		December 31, 2010	
(dollars in thousands)	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets:				
Loans, net of allowance	$ 22,787,816	$ 22,922,008	$ 23,026,427	$ 23,063,218
Derivative assets	51,138	51,138	62,245	62,245
Cash and cash equivalents	451,960	451,960	1,463,700	1,463,700
Investment securities	8,277,239	8,318,030	8,279,655	8,323,378
Other investments	228,060	239,218	305,959	319,168
Assets held in trust funds	12,481	12,481	11,511	11,511
Financial liabilities:				
Bonds and notes	$ 27,129,580	$ 27,001,603	$ 28,582,672	$ 28,485,071
Derivative liabilities	749	749	8,781	8,781

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

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

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

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

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

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

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

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

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

NOTE 6 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each Farm Credit System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the banks are jointly and severally liable for the bonds and notes of the other Farm Credit System banks. The bonds and notes of the System totaled $189.641 billion at March 31, 2011.

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

NOTE 7 — EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31,	
(dollars in thousands)	**2011**	**2010**
Pension	$ 11,845	$ 12,044
401k	1,647	1,499
Other postretirement benefits	2,587	2,145
Total	$ 16,079	$ 15,688

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

(dollars in thousands)	**Actual YTD Through 3/31/11**	**Projected Contributions for Remainder of 2011**	**Projected Total Contributions 2011**
Pensions	$ 155	$ 48,839	$ 48,994
Other postretirement benefits	1,569	5,639	7,208
Total	$ 1,724	$ 54,478	$ 56,202

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

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

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

The District 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 District to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the District if floating rate borrowings were made directly. Under interest rate swap arrangements, the District agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index. The District may also purchase interest rate derivatives such as caps, in order to reduce the impact of rising interest rates on its floating-rate debt, and floors, in order to reduce the impact of falling interest rates on its floating-rate assets.

The primary type of derivative instrument used and the amount of activity for the three months ended March 31, 2011 is summarized in the following table:

Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ 1,135	$ 445
Additions	–	243
Maturities/amortization	(100)	(445)
Terminations	–	–
Balance at end of period	$ 1,035	$ 243

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

To minimize the risk of credit losses, the District deals with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of and levels of exposure to individual counterparties. The estimated gross credit risk exposure at March 31, 2011 of $50.7 million was with six counterparties and represented approximately 4.90 percent of the total notional amount of interest rate swaps. The District held $16.9 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The District does not anticipate nonperformance by any of these counterparties. The estimated gross credit risk exposure at December 31, 2010 of $62.2 million was with seven counterparties and represented approximately 5.48 percent of the total notional amount of interest rate swaps. The District held $18.3 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The District typically enters into master agreements that contain netting provisions. These provisions allow the District to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties. At period end, the District had not posted collateral with respect to any of these arrangements.

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

Fair-Value Hedges

For derivative instruments designated as a fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the gain on interest rate swaps recognized in interest expense for the three months ended March 31, 2011 was $11.1 million, while the amount of the loss on the Systemwide Debt Securities was ($11.1) million. The amount of the gain on interest rate swaps recognized in interest expense for the three months ended March 31, 2010 was $1.9 million, while the amount of the loss on the Systemwide Debt Securities was ($1.9) million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

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

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

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

Fair Values of Derivative Instruments

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

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

(dollars in thousands)	**BalanceSheet 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 Combined Statement of Income for the three months ended March 31, 2011 and 2010.

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

(dollars in thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2011	2010		2011	2010		2011	2010
Derivatives – Cash Flow Hedging Relationships:								
Firm Commitments	$ (1,969)	$ (8,751)	Interest Income	$ (214)	$ –	Interest Income	$ –	$ –

NOTE 9 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data

(dollars in thousands)	3/31/11 *(unaudited)*	12/31/10 *(audited)*
Cash, cash equivalents and investment securities	$ 8,489,612	$ 9,503,711
Loans	20,397,997	20,905,165
Less: allowance for loan losses	25,193	14,873
Net loans	20,372,804	20,890,292
Other assets	337,597	387,563
Total assets	$ 29,200,013	$ 30,781,566
Bonds and notes	$ 26,859,631	$ 28,325,569
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	130,395	328,216
Total liabilities	27,215,026	28,878,785
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	415,409	417,333
Retained earnings	1,156,031	1,053,119
Accumulated other comprehensive income (loss)	13,547	32,329
Total shareholders' equity	1,984,987	1,902,781
Total liabilities and equity	$ 29,200,013	$ 30,781,566

Statement of Income Data

(dollars in thousands)	For the three months ended March 31, 2011	2010
	(unaudited)	*(unaudited)*
Interest income	$ 224,765	$ 243,770
Interest expense	80,816	103,416
Net interest income	143,949	140,354
Provision for loan losses	10,896	4,430
Net interest income after provision for loan losses	133,053	135,924
Noninterest expense, net	(30,148)	(19,324)
Net income	$ 102,905	$ 116,600

NOTE 10 — REGULATORY ENFORCEMENT MATTERS

The FCA entered into written supervisory agreements with two District Associations in 2010 and one additional District Association during 2011. During 2011, the FCA entered into a new written supervisory agreement with a District Association which replaced a prior agreement issued in 2010. The combined assets of these three Associations totaled less than $980.0 million at March 31, 2011. The written supervisory agreements require those District Associations to take corrective actions with respect to certain areas of their operations, including capital, portfolio management, and asset quality. These enforcement actions are not expected to have a significant impact on the Bank's or District's financial condition or results of operations. While the FCA has not taken any other enforcement actions against the Bank or other District Associations during 2011, three additional District Associations were subject to special supervision by the FCA at March 31, 2011, subjecting them to additional regulatory scrutiny.

NOTE 11 – DISTRICT MERGER ACTIVITY

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

Prior to the merger, those Associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged Association. This agreement relates only to a finite pool of high risk assets of the merged Association existing at the merger date, which had a net total of approximately $243 million at March 31, 2011. Through this agreement, the merged Association will absorb substantial losses on these high risk assets in advance of the Bank providing financial assistance. This financial "safety net" from the Bank does not include losses that are sustained outside of the high risk asset pool. The agreement provides protection to the Bank, such as limitation on the Association's ability to make patronage distributions and certain other restrictions which are imposed if the merged Association's capital levels fail to meet minimum established levels. Assistance under the agreement, if any, is not expected to have a material impact on the financial condition of the Bank or District.

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

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

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

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

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

(dollars in thousands)	SW Florida *(unaudited)*	North Florida *(unaudited)*	South Florida *(unaudited)*	Florida *(unaudited)*
Assets	$ –	$ 13	$ 2,790	$ 2,803
Cash				
Investment securities:				
Held to maturity	39,553	–	1,987	41,540
Loans	226,802	386,454	559,912	1,173,168
Less: allowance for loan losses	–	–	10,679	10,679
Net loans	226,802	386,454	549,233	1,162,489
Other investments	–	10,639	–	10,639
Accrued interest receivable	1,405	1,871	2,086	5,362
Investments in other Farm Credit institutions	6,495	9,486	8,716	24,697
Premises and equipment, net	867	2,575	5,348	8,790
Other property owned	2,173	6,310	4,516	12,999
Due from AgFirst Farm Credit Bank	2,337	4,038	4,484	10,859
Other assets	4,924	3,887	4,658	13,469
Total assets	$ 284,556	$ 425,273	$ 583,818	$ 1,293,647
Liabilities				
Notes payable to AgFirst Farm Credit Bank	$ 242,347	$ 369,481	$ 454,284	$ 1,066,112
Accrued interest payable	482	823	1,006	2,311
Patronage refund payable	15	40	671	726
Advanced conditional payments	–	407	3,710	4,117
Other liabilities	3,312	4,345	5,119	12,776
Total liabilities	246,156	375,096	464,790	1,086,042
Commitments and contingencies				
Members' Equity				
Protected borrower stock	227	40	2,463	2,730
Capital stock and participation certificates	525	1,411	635	2,571
Additional paid in capital	12,171	7,854	(121)	19,904
Retained earnings				
Allocated	25,592	40,872	30,879	97,343
Unallocated	–	–	85,057	85,057
Accumulated other comprehensive income (loss)	(115)	–	115	–
Total members' equity	38,400	50,177	119,028	207,605
Total liabilities and members' equity	$ 284,556	$ 425,273	$ 583,818	$ 1,293,647

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

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

NOTE 12 — SUBSEQUENT EVENTS

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