AgFirst Farm Credit Bank

Quarterly Report

Third Quarter 2010

THIRD QUARTER 2010

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2010 quarterly report of AgFirst Farm Credit Bank, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Paul M House

Paul M. House
Chairman of the Board

F. A. Lowrey

F. A. Lowrey
Chief Executive Officer

Charl L Butler

Charl L. Butler
Chief Financial Officer

November 5, 2010

Report on Internal Control Over Financial Reporting

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

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

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2010. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank concluded that as of September 30, 2010, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2010.

F.A. Lowrey
Chief Executive Officer

Charl L. Butler
Chief Financial Officer

November 5, 2010

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three and nine month periods ended September 30, 2010. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements and the 2009 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

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

FINANCIAL CONDITION

Loan Portfolio

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

AgFirst Loan Portfolio *(dollars in thousands)*	**September 30, 2010**		**December 31, 2009**		**September 30, 2009**	
Direct Notes	$14,722,011	70.51%	$14,890,793	69.82%	$ 15,018,544	70.30%
Participations/Syndications purchased, net	4,260,489	20.41	4,758,466	22.31	4,731,854	22.15
Correspondent Lending	1,882,395	9.01	1,671,060	7.84	1,596,091	7.47
Loans to OFIs	14,000	0.07	7,000	0.03	16,000	0.08
Total	$20,878,895	100.00%	$21,327,319	100.00%	$ 21,362,489	100.00%

Total loans outstanding were $20.879 billion at September 30, 2010, a decrease of $448.4 million, or 2.10 percent, compared to total loans outstanding at December 31, 2009. The decline in loan volume, a trend that began in late 2008, reflects the persistent downturn in the general economy. However, over the last quarter, loan volume appears to be stabilizing.

The weakened economy has affected the Bank's and District Associations' current and prospective customers in a number of ways, including lower demand and price 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, many customers have reduced production, delayed expansion plans, and generally taken actions to preserve their investment and working capital. Each of these factors has contributed to the lower loan demand throughout the District. Future loan demand is very difficult to predict. However, it is expected to remain weak for the remainder of 2010.

Credit Quality

Credit quality has also been adversely affected by the weak economy. Although credit quality has improved slightly during 2010, problem asset levels remained elevated as can be seen in the following table:

AgFirst Total Loan Portfolio Credit Quality as of:			
Classification	**September 30, 2010**	**December 31, 2009**	**September 30, 2009**
Acceptable	87.61%	86.60%	86.92%
OAEM *	10.82%	9.48%	11.08%
Substandard	1.57%	3.92%	2.00%
Doubtful	0.00%	0.00%	0.00%

* *Other Assets Especially Mentioned*

Certain commodity groups have been adversely affected in the current economic cycle. Housing-related industries such as 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 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 adversely affected by lower real estate values in certain geographic areas within the Bank's chartered territory, particularly in Florida. Beginning in 2008, real estate values declined, population growth slowed, and housing foreclosures increased in Florida. Other areas of the District experienced a less severe reduction in real estate values.

The pork and dairy industries have returned to profitability in 2010. Profitability for pork and dairy producers was primarily achieved through lower cost of production and reduction of oversupply which has led to higher prices. The recent favorable environment for the meat, dairy, and ethanol industries began to decline in the third quarter of 2010. Most grain markets experienced price increases during the third quarter of 2010 as lower production was reported in the United States and in other grain growing countries of the world. Higher grain and energy prices have negatively impacted profitability in the meat complex, dairy and ethanol industries. The future volatility of grain prices remains a primary concern to many of these producers.

The credit conditions discussed above affect the credit quality of the Bank's participation/syndication loan portfolio directly. They also affect the credit quality of loan portfolios and earnings performance of the individual District Associations, which in turn is reflected in the quality of the Bank's Direct Notes. Continued weakness in the general economy and certain agricultural sectors will have an impact on credit quality for some time. Although credit quality is stabilizing, it will take time to fully resolve some problem assets due to their dependency on general economic conditions, including employment, the housing market, and real estate values.

Direct Notes

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

At September 30, 2010, total Direct Note volume outstanding was $14.722 billion, a decrease of $168.8 million, or 1.13 percent, compared to December 31, 2009. Weak loan demand, as discussed above, and a generally more conservative credit approach were the primary reasons for the decline in growth. Also, in some cases, business development resources have been redirected to problem asset management. However, over the last quarter, Direct Note volume has shown some stabilization.

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

Direct Note Credit Quality as of:			
Classification	**September 30, 2010**	**December 31, 2009**	**September 30, 2009**
Acceptable	87.54%	86.13%	86.15%
OAEM *	12.46%	11.26%	13.85%
Substandard	0.00%	2.61%	0.00%
Doubtful	0.00%	0.00%	0.00%

* *Other Assets Especially Mentioned*

As of September 30, 2010, fifteen of the twenty-two District Associations' Direct Notes, representing 87.54 percent of the Direct Note portfolio, were classified acceptable. The remaining seven Direct Notes, representing 12.46 percent of the portfolio, were classified as Other Assets Especially Mentioned (OAEM). All of the assets of the various Associations secure the respective Direct Notes. The risk funds of an Association, including both capital and the allowance for loan losses, protect the interest of the Bank should a Direct Note default. None of the Direct Notes are considered impaired. As of September 30, 2010, six Associations were in violation of covenants under the GFA. The Bank approved temporary waivers of the defaults and allowed these Associations to operate under special credit arrangements (SCAs) pursuant to their respective GFA.

Participations/Syndications

AgFirst maintains a participations/syndications portfolio, which consists primarily of commercial agricultural and agribusiness loans. As of September 30, 2010, the participations/syndications portfolio totaled $4.260 billion. The size of this portfolio decreased $498.0 million, or 10.47 percent, from December 31, 2009 to September 30, 2010. As with the Direct Notes, borrower demand in this portfolio is anticipated to remain flat through the remainder of 2010.

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

Credit quality statistics for the participations/syndications portfolio declined overall during the past twelve months as shown in the following chart:

Participations/Syndications Credit Quality as of:			
Classification	**September 30, 2010**	**December 31, 2009**	**September 30, 2009**
Acceptable	82.48%	83.44%	85.12%
OAEM *	9.88%	7.18%	5.92%
Substandard	7.64%	9.38%	8.96%
Doubtful	0.00%	0.00%	0.00%

* *Other Assets Especially Mentioned*

Correspondent Lending

AgFirst also maintains a correspondent lending portfolio, which consists primarily of first lien residential mortgages. As of September 30, 2010, the correspondent lending portfolio totaled $1.882 billion. From December 31, 2009 to September 30, 2010, this portfolio increased $211.3 million, or 12.65 percent. The increase in volume of this portfolio continued to be influenced by refinancing activity generated by the lower interest rate environment and government incentives, which expired earlier in 2010.

Substantially all loans in the correspondent lending portfolio are guaranteed by the Federal National Mortgage Association (Fannie Mae) and/or the Federal Agricultural Mortgage Corporation (Farmer Mac), thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par. At September 30, 2010, 99.81 percent of the correspondent lending portfolio was classified as Acceptable and 0.19 percent was classified as OAEM.

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

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank at September 30, 2010, were $183.7 million compared to $217.3 million at December 31, 2009. Nonaccrual loans decreased $33.6 million during the nine months ended September 30, 2010 primarily due to charge-offs of uncollectible balances of $31.4 million (composed primarily of charge-offs on three borrower relationships totaling $25.5 million). Other decreases to nonaccrual loans consisted of transfers to other property owned of $10.1 million, reinstatements to accrual status of $15.2 million, and repayments of $30.4 million. Offsetting these decreases were $53.8 million of loan balances transferred to nonaccrual status during the nine months ended September 30, 2010. The six largest nonaccrual borrower relationships accounted for 60.77 percent of the total nonaccrual balance. At September 30, 2010, total nonaccrual loans were primarily classified in the forestry (27.99 percent of the total), other real estate (19.09 percent), cattle (15.83 percent), and swine (15.53 percent) segments. Some of these nonaccrual loans are secured by real estate, which has been negatively impacted by the current economic environment as discussed previously. Nonaccrual loans were 0.88 percent of total loans outstanding at September 30, 2010.

Other property owned (OPO) consists of assets once held as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO increased $2.7 million during the first nine months of 2010 and totaled $28.6 million at September 30, 2010. For the nine months ended September 30, 2010, transfers to OPO were $10.1 million, which is composed primarily of two properties, a cattle and groves land holding of $4.6 million and another land holding of $3.8 million. Disposals of OPO of $7.1 million were primarily from the sale of the Bank's $5.8 million interest in an ethanol production facility. A total gain of $1.6 million was recognized from this sale. The largest OPO holding at September 30, 2010, which consisted of several parcels of land, was $13.7 million (47.93 percent of the total).

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was $34.7 million at September 30, 2010, as compared with $32.3 million at December 31, 2009. The increase during the nine months ended September 30, 2010 of $2.4 million was primarily due to provision expense increases of $33.6 million, offset by charge-offs of $31.4 million for loan amounts determined to be uncollectible. Charge-offs were related primarily to the forestry (53.73 percent of the total), cattle (22.19 percent), and other real estate (17.82 percent) segments. The allowance at September 30, 2010 included specific reserves of $23.0 million (66.40 percent of the total) primarily related to credits for participation borrower relationships within the other real estate, forestry, and ethanol industries and $11.7 million (33.60 percent) of general reserves attributed to participation loans. The total allowance at September 30, 2010 was comprised primarily of reserves for other real estate (31.71 percent), forestry (17.99 percent), ethanol (8.00 percent), nonfarm income (6.46 percent), and nursery/greenhouses (6.07 percent) segments. Declining real estate values impacted charge-offs and reserves in several of these loan segments. See Note 3*, Allowance for Loan Losses and Impaired Loans*, in the Notes to the Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding increases to the allowance from provision expense.

Liquidity and Funding Sources

One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. The primary source of funds for AgFirst is the issuance of Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation. At September 30, 2010, AgFirst had $27.596 billion in total debt outstanding compared to $28.694 billion at December 31, 2009. 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.

Cash and cash equivalents, which decreased $375.5 million from December 31, 2009 to a total of $563.4 million at September 30, 2010, 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 primarily a result of lower liquidity needs for maturing debt.

Investment securities totaled $8.194 billion, or 27.33 percent of total assets at September 30, 2010, compared to $8.226 billion, or 26.65 percent, as of December 31, 2009. Investment securities decreased $32.1 million (0.39 percent), compared to December 31, 2009, 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 available-for-sale totaled $7.038 billion at September 30, 2010. Available-for-sale investments at September 30, 2010 included $4.777 billion in Agency Collateralized Mortgage Obligations (CMOs), $1.899 billion in Agency Adjustable Rate Mortgages, $321.5 million in non-agency CMOs, and $40.4 million in asset-backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of September 30, 2010, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require a liquidity policy that establishes a minimum "coverage" level of 90 days. "Coverage" is defined as the number of days that maturing debt could be funded through the sale of eligible available-for-sale investments and cash and cash equivalents maintained by the Bank. At September 30, 2010, AgFirst's coverage was 230 days. The Bank's cash and cash equivalents position provided 21 days of the total 230 days of liquidity coverage. Investment securities fully backed by the U.S. government provided an additional 131 days of liquidity. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation of 230 days.

Investment securities classified as being held-to-maturity totaled $1.156 billion at September 30, 2010. These held-to-maturity investments were primarily Rural Housing Mortgage-Backed Securities purchased under a Mission Related Investment pilot program approved by the FCA in 2005.

The FCA considers an asset-backed or mortgage-backed investment security ineligible if it falls below the top category (AAA/Aaa) credit rating by the Nationally Recognized Statistical Rating Organizations (NRSROs). The FCA requires System institutions to divest of such an investment unless the FCA grants specific approval to continue to hold an ineligible security. For each of the investment securities in the Bank's portfolio at September 30, 2010 rated below AAA/Aaa (total fair value of $262.3 million and amortized cost of $318.5 million), the Bank has developed and submitted plans for approval by the FCA that provide that the securities may be held to maturity. The FCA has approved, with conditions, the Bank's plans for all but five investments that have recently become ineligible. The Bank is in the process of submitting a plan to hold these investments to the FCA for approval. Management is of the opinion that holding these securities will result in a higher return for the Bank than selling them in the current illiquid market. Based on the Bank's analysis, no other-than-temporary credit related impairment was recognized on these recently ineligible securities.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain Bank ineligible securities are risk weighted between 200 percent and 50 percent instead of the standard 20 percent. These ineligible securities had a fair value of $142.2 million and amortized cost of $173.5 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 \$70.3 million and amortized cost of \$86.0 million at September 30, 2010. 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 \$179.4 million for the nine months ended September 30, 2010 and totaled \$58.3 million at September 30, 2010 compared to a total net unrealized loss amount of \$121.1 million at December 31, 2009. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The Bank performs periodic credit reviews, including other-than-temporary impairment analysis, on its entire investment securities portfolio. Additional analysis for each security not rated in the top category by the NRSROs is performed using a cash flow model with key assumptions and performance factors which may include credit default rate, prepayment rate, and loss severity. The objective is to quantify future possible loss of principal or interest due on each identified security. The credit enhancements specific to the individual security are considered as appropriate, and may include monoline credit insurance, subordination, over-collateralization, and excess interest spread. Asset-backed securities covered by insurers are analyzed with insurance and without, to quantify the extent of reliance on their guarantee. Based on the results of all analyses, the Bank recognized other-than-temporary credit related impairment of \$10.0 million on asset-backed securities and non-agency CMOs in its portfolio during the nine months ended September 30, 2010 (none during the third quarter), 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 \$10.4 million life to date (\$4.6 million in 2010), compared to total other-than-temporary credit related impairment charges life to date of \$35.1 million (\$7.1 million in 2010). Total other-than-temporary credit related impairment charges on non-agency CMOs have totaled \$8.1 million life to date (\$2.9 million in 2010). There have been no payment shortfalls on non-agency CMOs. See Note 2, *Investment Securities*, in the Notes to the Financial Statements for further information.

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

Capital Resources

Total shareholders’ equity increased \$452.8 million (28.65 percent) from December 31, 2009 to September 30, 2010. This increase is primarily attributed to 2010 unallocated retained earnings from net income of \$307.2 million and \$179.4 million in unrealized gains during 2010 on investments available-for-sale, a component of AOCI. Offsetting these increases were preferred stock dividends paid of \$13.7 million and capital stock retirements of \$10.1 million. The Bank also declared and distributed \$10.0 million of cash patronage in June 2010 to District Associations.

As of September 30, 2010, AgFirst exceeded the minimum permanent capital, core surplus, total surplus, and net collateral ratio requirements established by FCA Regulations. In conjunction with the issuance of the Mandatorily Redeemable Preferred Stock, FCA requires AgFirst to maintain a minimum net collateral ratio of 104.00 percent compared to the System regulatory minimum of 103.00 percent. AgFirst reported the following regulatory ratios:

	Regulatory Minimum	9/30/10	12/31/09	9/30/09
Permanent Capital Ratio	7.00%	19.84%	16.86%	16.05%
Total Surplus Ratio	7.00%	19.80%	16.83%	16.01%
Core Surplus Ratio	3.50%	12.48%	9.85%	9.00%
Net Collateral Ratio	104.00%	107.11%	105.66%	106.16%

The Bank's permanent capital, total surplus, and core surplus ratios increased at September 30, 2010 as compared to December 31, 2009. These ratios are calculated using three month average daily balances for both capital and assets. The temporary net gains in AOCI, as discussed above, do not affect the reported capital ratios because the effect of AOCI is excluded entirely from the risk-based capital ratios. The increases in the permanent capital, total surplus, and core surplus ratios for September 30, 2010, are the result in part of FCA's approval of a change in capital treatment of certain ineligible securities. Beginning in the second quarter of 2010, more favorable capital treatment was permitted for the risk weighting of the senior-most positions of asset-backed securities and non-agency CMOs, as well as guaranteed amounts of non-agency reperformer CMOs. For purposes of the net collateral ratio, all ineligible investments are stated at lower of cost or market, except that guaranteed amounts of non-agency reperformer CMOs are used if higher than the lower of cost or market. This change initially improved the permanent capital and total surplus ratios by 82 basis points and the core surplus ratio by 88 basis points. The change had minimal impact on the net collateral ratio.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2010 was $100.5 million, compared to $77.5 million at September 30, 2009, an increase of $23.0 million, or 29.65 percent. For the nine months ended September 30, 2010, net income was $307.2 million, compared to $194.0 million at September 30, 2009, an increase of $113.2 million, or 58.36 percent. The overall increases for the three and nine month periods are discussed below.

Net Interest Income

Net interest income for the three months ended September 30, 2010 was $140.5 million compared to $124.2 million for the same period of 2009, an increase of $16.3 million or 13.16 percent. For the nine months ended September 30, 2010, net interest income was $421.2 million, compared to $349.4 million, at September 30, 2009, an increase of $71.8 million, or 20.55 percent. The net interest margin was 1.92 percent and 1.93 percent in the current year three and nine month periods respectively, an improvement of 26 basis points and 35 basis points over the same periods of 2009. 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. Loan pricing compared to the underlying cost of funds also improved, reflecting increased liquidity and credit risk premiums in the lending markets. 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 September 30, 2010 vs. September 30, 2009			For the nine months ended September 30, 2010 vs. September 30, 2009		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	$ (5,336)	$ (8,557)	$ (13,893)	$ (10,351)	$ (38,941)	$ (49,292)
Investments & Cash Equivalents	(254)	(1,274)	(1,528)	499	(8,021)	(7,522)
Total Interest Income	(5,590)	(9,831)	(15,421)	(9,852)	(46,962)	(56,814)
Interest Expense:						
Interest-Bearing Liabilities	830	(32,589)	(31,759)	4,855	(133,452)	(128,597)
Changes in Net Interest Income	$ (6,420)	$ 22,758	$ 16,338	$ (14,707)	$ 86,490	$ 71,783

Provision for Loan Losses

The provision for loan losses was $11.1 million and $33.6 million for the three and nine month periods ended September 30, 2010, compared to $19.5 million and $54.4 million for the same periods in 2009. Provision expense for the three month period ended September 30, 2010 included specific reserve increases for two participation borrower relationships totaling $14.8 million, offset by a provision reversal for one participation loan totaling $6.0 million. Provision expense for the three month period primarily consisted of borrowers in the other real estate (54.17 percent of the provision expense total) and cattle (31.11 percent) segments offset by provision reversal in the swine segment (83.42 percent of the reversal total). Provision expense for the nine month period ended September 30, 2010 included specific reserve increases for four participation borrower relationships totaling $34.2 million. Provision expense for the nine month period primarily related to borrowers in the other real estate (46.52 percent of the total) and forestry (45.24 percent) segments.

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

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2010**	**2009**	**Increase/ (Decrease)**	**2010**	**2009**	**Increase/ (Decrease)**
Loan fees	$ 5,895	$ 2,925	$ 2,970	$ 12,277	$ 8,270	$ 4,007
Gains (losses) from other property owned, net	1,530	(47)	1,577	2,182	(2,333)	4,515
Gains (losses) on investments, net	–	8,425	(8,425)	1,568	8,425	(6,857)
Net impairment losses on investments	–	(11,890)	11,890	(9,985)	(20,721)	10,736
Gains (losses) on derivatives, net	–	183	(183)	–	488	(488)
Gains (losses) on sale of rural home loans, net	–	1	(1)	(112)	1	(113)
Patronage refunds from other Farm Credit Institutions	10	792	(782)	275	1,925	(1,650)
Insurance premium refund	–	–	–	10,440	–	10,440
Other noninterest income	1,258	2,259	(1,001)	2,855	5,433	(2,578)
Total noninterest income	$ 8,693	$ 2,648	$ 6,045	$ 19,500	$ 1,488	$ 18,012

Noninterest income, net of certain gains and losses as detailed in the table above for the three and nine months ended September 30, 2010, was $8.7 million and $19.5 million, respectively, which reflected an increase of $6.0 million and $18.0 million compared to the same periods in 2009.

The increase of total noninterest income of $6.0 million for the three months ended September 30, 2010 was due primarily to the decrease of $11.9 million in the recognition of credit related other-than-temporary impairment on the Bank's investment securities. Offsetting this increase was a reduction in gains on investments of $8.4 million during the third quarter of 2009, resulting from sales to achieve certain portfolio limits and liquidity parameters.

The increase of total noninterest income of $18.0 million for the nine months ended September 30, 2010 was due in part to the Bank's recording $10.4 million of insurance premium refunds during the first quarter of 2010 from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. Also contributing to the increase to noninterest income was a decrease of $10.7 million of losses from the recognition of credit related other-than-temporary impairment on the Bank's investment securities for the nine month period ended September 30, 2010 as compared to the same period ended September 30, 2009. See discussion of 2010 credit related other-than-temporary impairment above. The increase in noninterest income was also due to $2.2 million in gains from other property owned for the period ended September 30, 2010, compared to $2.3 million in costs (including legal and appraisal fees) for the period ended September 30, 2009. Offsetting these increases to noninterest income was a decrease in gains on investments of $6.9 million. Gains in 2009 are discussed in the paragraph above. Gains of $1.6 million on the sales of investment securities recorded during the first quarter of 2010 were the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio. Also, other noninterest income decreased $2.6 million for the nine months ended September 30, 2010 primarily due to a captive insurance allocated loss based on claims experience recorded in 2010 and a gain from the Bank's termination of the captive mortgage insurance program recorded in 2009.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2010**	**2009**	**Increase/ (Decrease)**	**2010**	**2009**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 9,739	$ 9,473	$ 266	$ 29,647	$ 28,084	$ 1,563
Occupancy and equipment	3,841	3,499	342	11,139	10,168	971
Insurance Fund premiums	1,272	5,175	(3,903)	3,999	15,504	(11,505)
Other operating expenses	5,344	6,211	(867)	15,413	16,374	(961)
Called debt expense	15,186	4,597	10,589	33,292	27,893	5,399
Correspondent lending servicing expense	2,078	764	1,314	6,135	4,260	1,875
Other noninterest expense	70	70	–	209	209	–
Total noninterest expense	$ 37,530	$ 29,789	$ 7,741	$ 99,834	$ 102,492	$ (2,658)

Noninterest expense for the three months ended September 30, 2010 was $37.5 million, which reflected an increase of $7.7 million compared to the corresponding period in 2009. For the nine months ended September 30, 2010, noninterest expense was $99.8 million, which reflected a decrease of $2.7 million compared to the corresponding period in 2009. The increase of $7.7 million for the three month period and the decrease of $2.7 million for the nine month period were primarily due to the decrease in insurance fund premiums offset by an increase in called debt expense.

Insurance Fund premiums decreased $3.9 million (75.42 percent) and $11.5 million (74.21 percent) for the three and nine month periods due primarily to a change in the premium rate charged. The 2010 base annual premium rate is 5 basis points compared to the 20 basis points charged in 2009.

Concession or debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized concession is expensed. Called debt expense increased $10.6 million (230.35 percent) for the three month period and $5.4 million (19.36 percent) for the nine month period. Call options were exercised on bonds totaling $24.067 billion for the nine month period ended September 30, 2010 compared to $19.400 billion for the same period ended September 30, 2009. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

Correspondent lending service expense increased $1.3 million (171.99 percent) and $1.9 million (44.01 percent) for the three month period and nine month period ended September 30, 2010, respectively. These increases were primarily related to increased guarantee fees for bulk transfers to Long-Term Standby Commitments.

Increases in salaries and employee benefits are due primarily to normal salary administration and increased employee benefit costs.

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

Key results of operations comparisons:

	Annualized for the nine months ended September 30, 2010	**For the year ended December 31, 2009**	**Annualized for the nine months ended September 30, 2009**
Return on average assets	1.35%	1.03%	0.87%
Return on average shareholders' equity	29.29%	20.90%	18.56%
Net interest income as a percentage of average earning assets	1.93%	1.66%	1.58%
Net (charge-offs) recoveries to average loans	(0.20)%	(0.28)%	(0.29)%

REGULATORY MATTERS

During 2010, the FCA has entered into written supervisory agreements with two District Associations whose combined assets totaled less than $850.0 million at September 30, 2010. The written supervisory agreements require those District Associations to take corrective actions with respect to certain areas of their operations, including capital, portfolio management, and asset quality. These enforcement actions will not have a significant impact on the Bank's or District's financial condition or results of operations. While the FCA has taken no other enforcement actions against the Bank or other District Associations during 2010, five additional District Associations are currently subject to special supervision by the FCA, 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 Government-sponsored enterprise (GSE). The comment period for the ANPRM ends November 5, 2010.

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. The Dodd-Frank Act 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 over-the-counter derivatives will require more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges. These requirements have the potential of making derivative transactions more costly and less attractive as risk management tools for System institutions. The Dodd-Frank Act requires the Commodities Futures Trading Commission to consider an end-user exemption from the mandatory clearing and trading requirements for derivative transactions entered into by certain System institutions.

Among the studies called for under the Act are two that will examine Fannie Mae, Freddie Mac, and federal home loan finance. One provision expressed Congress' sense of importance of GSE reform to residential mortgage credit. The other calls for the Treasury department to conduct a study on ending the conservatorship of Fannie Mae and Freddie Mac and reforming the federal housing finance system. A potential risk for the Farm Credit System is that the System is also a GSE and may directly or indirectly be impacted by the decisions made as Congress addresses Fannie Mae and Freddie Mac.

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

DISTRICT MERGER ACTIVITY

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Balance Sheets

(dollars in thousands)	**September 30, 2010**	**December 31, 2009**
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	**$ 563,350**	$ 938,884
Investment securities:		
Available for sale (amortized cost of $6,979,878 and $6,959,113 respectively)	**7,038,184**	6,838,025
Held to maturity (fair value of $1,231,748 and $1,426,740 respectively)	**1,155,956**	1,388,184
Total investment securities	**8,194,140**	8,226,209
Loans	**20,878,895**	21,327,319
Less: allowance for loan losses	**34,653**	32,292
Net loans	**20,844,242**	21,295,027
Accrued interest receivable	**92,597**	94,756
Investments in other Farm Credit System institutions	**64,570**	76,635
Premises and equipment, net	**12,236**	14,489
Other property owned	**28,610**	25,909
Due from associations	**8,115**	37,345
Other assets	**175,217**	158,290
Total assets	**$ 29,983,077**	$ 30,867,544
Liabilities		
Bonds and notes	**$ 27,596,277**	$ 28,694,013
Mandatorily redeemable preferred stock	**225,000**	225,000
Accrued interest and dividends payable	**51,944**	83,038
Patronage distribution payable	**—**	182,724
Other liabilities	**76,720**	102,439
Total liabilities	**27,949,941**	29,287,214
Commitments and contingencies (Note 6)	**—**	—
Shareholders' Equity		
Perpetual preferred stock	**400,000**	400,000
Capital stock and participation certificates	**428,621**	438,707
Retained earnings		
Allocated	**815**	965
Unallocated	**1,147,306**	863,862
Accumulated other comprehensive income (loss)	**56,394**	(123,204)
Total shareholders' equity	**2,033,136**	1,580,330
Total liabilities and equity	**$ 29,983,077**	$ 30,867,544

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

Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2010	2009	For the nine months ended September 30, 2010	2009
Interest Income				
Investment securities and other	**$ 47,959**	$ 49,487	**$ 144,845**	$ 152,367
Loans	**188,238**	202,131	**577,086**	626,378
Total interest income	**236,197**	251,618	**721,931**	778,745
Interest Expense	**95,686**	127,445	**300,774**	429,371
Net interest income	**140,511**	124,173	**421,157**	349,374
Provision for (reversal of) loan losses	**11,144**	19,493	**33,626**	54,388
Net interest income after provision for (reversal of) loan losses	**129,367**	104,680	**387,531**	294,986
Noninterest Income				
Loan fees	**5,895**	2,925	**12,277**	8,270
Gains (losses) from other property owned, net	**1,530**	(47)	**2,182**	(2,333)
Gains (losses) on investments, net	**—**	8,425	**1,568**	8,425
Total other-than-temporary impairment losses on investments (Note 2)	**—**	(36,898)	**(2,110)**	(59,032)
Portion of loss recognized in other comprehensive income (loss) (Note 2)	**—**	25,008	**(7,875)**	38,311
Net other-than-temporary impairment losses on investments included in earnings	**—**	(11,890)	**(9,985)**	(20,721)
Gains (losses) on derivatives, net	**—**	183	**—**	488
Gains (losses) on sale of rural home loans, net	**—**	1	**(112)**	1
Patronage refunds from other Farm Credit institutions	**10**	792	**275**	1,925
Insurance premium refund	**—**	—	**10,440**	—
Other noninterest income	**1,258**	2,259	**2,855**	5,433
Total noninterest income	**8,693**	2,648	**19,500**	1,488
Noninterest Expenses				
Salaries and employee benefits	**9,739**	9,473	**29,647**	28,084
Occupancy and equipment	**3,841**	3,499	**11,139**	10,168
Insurance Fund premiums	**1,272**	5,175	**3,999**	15,504
Other operating expenses	**5,344**	6,211	**15,413**	16,374
Called debt expense	**15,186**	4,597	**33,292**	27,893
Correspondent lending servicing expense	**2,078**	764	**6,135**	4,260
Other noninterest expense	**70**	70	**209**	209
Total noninterest expenses	**37,530**	29,789	**99,834**	102,492
Net income	**$ 100,530**	$ 77,539	**$ 307,197**	$ 193,982

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2008	$ 400,000	$ 434,929	$ 805	$ 762,550	$ (357,192)	$ 1,241,092
Cumulative-effect adjustment for investment impairment accounting change (Note 2)				3,474	(3,474)	—
Comprehensive income (loss)						
Net income				193,982		193,982
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 2)					(38,311)	
Temporarily impaired (Note 2)					216,974	
Total unrealized gains (losses) on investments available for sale						178,663
Employee benefit plans adjustments					169	169
Total comprehensive income (loss)						372,814
Capital stock/participation certificates issued/(retired), net		1,495				1,495
Perpetual preferred stock dividends paid				(13,706)		(13,706)
Patronage distribution						
Nonqualified allocated retained earnings			43	(43)		—
Retained earnings retired						
Cash patronage				(25)		(25)
Patronage distribution adjustment				(64)		(64)
Balance at September 30, 2009	$ 400,000	$ 436,424	$ 848	$ 946,168	$ (181,834)	$ 1,601,606
Balance at December 31, 2009	**$ 400,000**	**$ 438,707**	**$ 965**	**$ 863,862**	**$ (123,204)**	**$ 1,580,330**
Comprehensive income (loss)						
Net income				**307,197**		**307,197**
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 2)					**19,742**	
Temporarily impaired (Note 2)					**159,651**	
Total unrealized gains (losses) on investments available for sale						**179,393**
Employee benefit plans adjustments					**205**	**205**
Total comprehensive income (loss)						**486,795**
Capital stock/participation certificates issued/(retired), net		**(10,086)**				**(10,086)**
Perpetual preferred stock dividends paid				**(13,706)**		**(13,706)**
Cash patronage				**(10,197)**		**(10,197)**
Patronage distribution adjustment			**(150)**	**150**		**—**
Balance at September 30, 2010	**$ 400,000**	**$ 428,621**	**$ 815**	**$ 1,147,306**	**$ 56,394**	**$ 2,033,136**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2010	2009
Cash flows from operating activities:		
Net income	**$ 307,197**	$ 193,982
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**6,217**	6,482
Premium amortization/discount accretion on investment securities	**28,222**	10,257
Premium amortization/discount accretion on bonds and notes	**(5,480)**	10,309
Provision for (reversal of) loan losses	**33,626**	54,388
(Gains) losses on other property owned, net	**(2,182)**	2,333
Net impairment losses on investments	**9,985**	20,721
(Gains) losses on investments, net	**(1,568)**	(8,425)
(Gains) losses on derivatives, net	**—**	(488)
(Gains) losses on sales of rural home loans, net	**112**	(1)
Net change in loans held for sale	**569**	1
(Increase) decrease in accrued interest receivable	**2,159**	7,816
(Increase) decrease in due from associations	**29,230**	15,969
(Increase) decrease in other assets	**(6,321)**	3,137
Increase (decrease) in accrued interest payable	**(31,094)**	(56,628)
Increase (decrease) in other liabilities	**(35,271)**	(4,722)
Total adjustments	**28,204**	61,149
Net cash provided by (used in) operating activities	**335,401**	255,131
Cash flows from investing activities:		
Investment securities purchased	**(1,553,945)**	(1,900,554)
Investment securities sold or matured	**1,738,753**	1,921,801
Net (increase) decrease in loans	**406,409**	(111,801)
(Increase) decrease in investments in other Farm Credit System institutions	**12,065**	(70)
Purchase of premises and equipment, net	**(3,964)**	(4,700)
Proceeds from sale of other property owned	**9,550**	1,880
Net cash provided by (used in) investing activities	**608,868**	(93,444)
Cash flows from financing activities:		
Bonds and notes issued	**47,053,340**	81,605,716
Bonds and notes retired	**(48,156,430)**	(81,560,519)
Capital stock and participation certificates issued/retired, net	**(10,086)**	1,495
Cash distribution to shareholders	**(192,921)**	(157,106)
Dividends paid on perpetual preferred stock	**(13,706)**	(13,706)
Net cash provided by (used in) financing activities	**(1,319,803)**	(124,120)
Net increase (decrease) in cash and cash equivalents	**(375,534)**	37,567
Cash and cash equivalents, beginning of period	**938,884**	277,003
Cash and cash equivalents, end of period	**$ 563,350**	$ 314,570
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	**$ —**	$ 19,289
Loans transferred to other property owned	**10,069**	49,943
Investments transferred to loans (Note 1)	**—**	91,353
Change in unrealized gains (losses) on investments and derivative instruments, net	**179,393**	178,663
Employee benefit plans adjustments	**205**	169
Cumulative-effect adjustment for investment impairment accounting change (Note 2)	**—**	(3,474)
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	**$ 10,834**	$ (40,477)
Decrease (increase) in other assets	**(10,606)**	40,338
Increase (decrease) in other liabilities	**(228)**	(488)
Supplemental information:		
Interest paid	**$ 337,348**	$ 475,690

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

Notes to the Financial Statements

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

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

The accompanying financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank). AgFirst and its related twenty-two associations (Associations or District Associations) are collectively referred to as the District. A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the Bank as of and for the year ended December 31, 2009 are contained in the 2009 Annual Report to Shareholders. These unaudited third quarter 2010 financial statements should be read in conjunction with the 2009 Annual Report to Shareholders.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010.

There were no reclassifications of amounts in the prior period's financial statements to conform to the current period's financial statement presentation. During the second quarter of 2009, the Bank reclassified certain financial instruments which totaled $91.4 million from investments to loans. These instruments were secondary market acquisitions of either private placement or senior secured notes transacted under the scope of the Bank's lending authority. The reclassification better reflects the nature of these notes and provides for consistent presentation across the Farm Credit System. This reclassification of $91.4 million is reflected as a non-cash item in the Statements of Cash Flows and did not have a significant impact on the Financial Statements or the regulatory ratios.

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

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

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses incurred in the remainder of the loan portfolio at the financial statement date, which excludes loans included under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

In addition to the recently issued accounting pronouncements discussed in the 2009 Annual Report to Shareholders, in June 2009, the FASB issued guidance "Accounting for Transfers of Financial Assets," which amended previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

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

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. This guidance was effective January 1, 2010. The Bank does not have any variable interest or controlling interest in a variable entity. Therefore, there was no impact of adoption of the guidance for the Bank.

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

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance is intended to provide 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 will be amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This will include 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 are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance should have no impact on the Bank's financial condition or results of operations, but it will result in additional disclosures.

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 as of September 30, 2010 and December 31, 2009 follows:

	September 30, 2010				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. GNMA MBS/CMOs	$ 4,654,657	$ 126,678	$ (4,244)	$ 4,777,091	2.12%
U.S. Govt. Agency MBS	1,889,287	28,730	(18,828)	1,899,189	1.44
Non-Agency CMOs	387,848	–	(66,347)	321,501	0.66
Asset-Backed Securities	48,086	2,319	(10,002)	40,403	0.59
Total	$ 6,979,878	$ 157,727	$ (99,421)	$ 7,038,184	1.84%

	December 31, 2009				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. GNMA MBS/CMOs	$ 3,835,830	$ 34,286	$ (12,958)	$ 3,857,158	2.04%
U.S. Govt. Agency MBS	2,595,257	22,374	(44,256)	2,573,375	1.58
Non-Agency CMOs	460,866	–	(100,839)	360,027	0.56
Asset-Backed Securities	67,160	–	(19,695)	47,465	0.48
Total	$ 6,959,113	$ 56,660	$ (177,748)	$ 6,838,025	1.75%

Held-to-maturity

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments at September 30, 2010 and December 31, 2009 follows:

	September 30, 2010				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Agency MBS	$1,023,989	$ 65,557	$ (252)	$ 1,089,294	5.34%
Mission Related Investments	131,967	10,515	(28)	142,454	6.12
Total	$1,155,956	$ 76,072	$ (280)	$ 1,231,748	5.43%

	December 31, 2009				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Agency MBS	$1,250,051	$ 47,751	$ (289)	$ 1,297,513	5.19%
Mission Related Investments	138,133	1,403	(10,309)	129,227	5.99
Total	$1,388,184	$ 49,154	$ (10,598)	$ 1,426,740	5.27%

A summary of the expected maturity, estimated fair value and amortized cost of investment securities at September 30, 2010 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. GNMA MBS/CMOs	$ –	– %	$ –	– %	$ 1,366	0.68 %	$ 4,775,725	2.12 %	$ 4,777,091	2.12 %
U.S. Govt. Agency MBS	–	–	28,865	4.75	64,761	0.72	1,805,563	1.41	1,899,189	1.44
Non-Agency CMOs	–	–	–	–	–	–	321,501	0.66	321,501	0.66
Asset-Backed Securities	–	–	–	–	–	–	40,403	0.59	40,403	0.59
Total fair value	$ –	– %	$ 28,865	4.75 %	$ 66,127	0.72 %	$ 6,943,192	1.84 %	$ 7,038,184	1.84 %
Total amortized cost	$ –		$ 26,293		$ 66,021		$ 6,887,564		$ 6,979,878	

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	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency MBS	$ –	– %	$ –	– %	$ 2,527	5.00 %	$ 1,021,462	5.35 %	$ 1,023,989	5.34 %
Mission Related Investments	1,216	1.66	25,626	6.65	18,165	6.36	86,960	5.98	131,967	6.12
Total amortized cost	$ 1,216	1.66 %	$ 25,626	6.65 %	$ 20,692	6.20 %	$ 1,108,422	5.40 %	$ 1,155,956	5.43 %
Total fair value	$ 1,258		$ 26,615		$ 22,022		$ 1,181,853		$ 1,231,748	

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

During the nine months of 2010, proceeds from sales of investment securities were $57.5 million and realized gains were $1.6 million. During the nine months of 2009, proceeds from sales of investment securities were $155.7 million and realized gains were $8.4 million.

AgFirst's investments include primarily 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 are backed by a bond insurer.

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

The Bank's MBSs are collateralized by U.S. government or U.S. agency guaranteed residential mortgages and all were rated AAA/Aaa at September 30, 2010. Non-agency CMO securities not rated in the top category by at least one of the NRSROs at September 30, 2010 had a fair value of $232.7 million. ABSs not rated in the top category by at least one of the NRSROs at September 30, 2010 had a fair value of $29.5 million. For each of these investment securities in the Bank's portfolio rated below AAA/Aaa, the Bank has developed and submitted plans for approval by the FCA that provide that the securities may be held to maturity. The FCA has approved, with conditions, the Bank's plans for all but five investments that have recently become ineligible. The Bank is in the process of submitting a plan to hold these investments to the FCA for approval.

The fair value of all investments at September 30, 2010 split rated AAA/Aaa or lower by the NRSROs totaled $347.7 million (amortized cost of $420.5 million). This represents approximately 4.20 percent (and 5.17 percent) of total fair value (and amortized cost) of the Bank's total investment portfolio at September 30, 2010. Split rated AAA/Aaa is defined as a security maintaining different ratings by the NRSROs with at least one NRSRO rating the security AAA/Aaa.

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

An investment is considered impaired if its fair value is less than its cost. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following table shows the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at September 30, 2010 and December 31, 2009. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	September 30, 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	$ 68,888	$ 589	$ 548,853	$ 3,656	$ 617,741	$ 4,245
U.S. Govt. Agency MBS	267,439	1,647	702,883	17,433	970,322	19,080
Non-Agency CMOs	–	–	321,501	66,347	321,501	66,347
Asset-Backed Securities	–	–	34,030	10,002	34,030	10,002
Mission Related Investments	–	–	4,982	28	4,982	28
Total	$ 336,327	$ 2,236	$ 1,612,249	$ 97,466	$ 1,948,576	$ 99,702

	December 31, 2009					
	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	$ 186,492	$ 1,242	$ 1,269,486	$ 11,716	$ 1,455,978	$ 12,958
U.S. Govt. Agency MBS	213,231	2,014	1,369,665	42,531	1,582,896	44,545
Non-Agency CMOs	12,042	2,395	347,985	98,444	360,027	100,839
Asset-Backed Securities	–	–	47,465	19,695	47,465	19,695
Mission Related Investments	27,762	4,145	71,709	6,164	99,471	10,309
Total	$ 439,527	$ 9,796	$ 3,106,310	$ 178,550	$ 3,545,837	$ 188,346

On September 30, 2010, the Bank held certain investments having continuous unrealized loss positions greater than 12 months with a fair value totaling $1.612 billion and an unrealized loss position totaling $97.5 million. FASB guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, or (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Bank intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Bank does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes. Based on the results of all analyses, the Bank has recognized total other-than-temporary impairment during 2010 of $2.1 million in connection with ABS securities and non-agency CMO securities in its portfolio, which is included in Impairment Losses on Investments in the Statements of Income.

Since the Bank does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the other-than temporary impairment of $2.1 million is separated into: (1) the estimated amount relating to credit loss ($10.0 million reflected in Net Income in the Statements of Income), which is partially offset by (2) the amount relating to all other factors ($7.9 million reflected in other comprehensive income in the Statement of Changes in Shareholders' Equity).

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

Significant inputs used in this technique to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Bank obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The forecasted cumulative default rates used at September 30, 2010 ranged from 0.05 percent to 25.93 percent for non-agency CMO securities and from 18.59 percent to 79.17 percent for ABS securities. Prepayment rate assumptions are based on forecasted prepayments and resulted in prepayment rates that ranged from 8.70 percent to 19.06 percent for non-agency CMO securities and from 5.75 percent to 19.03 percent for ABS securities at September 30, 2010. At September 30, 2010, the loss severity rates estimated from assumptions ranged from 4.52 percent to 60.56 percent for non-agency CMO securities and from 59.59 percent to 100.00 percent for ABS securities.

For all investments other than the other-than-temporarily impaired securities discussed above, the Bank has not recognized any other-than-temporary impairment as the unrealized losses resulted from non-credit related factors. The Bank has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost. For the nine months ended September 30, 2010, net unrealized gains of $159.7 million were recognized in other comprehensive income for temporarily impaired available-for-sale investments.

The following schedules detail the activity related to cumulative credit losses on investments recognized in earnings as of September 30, 2010 and 2009:

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

(dollars in thousands)		For the nine months ended September 30, 2009
Beginning balance at January 1, 2009	$	–
Adjustment to beginning balance due to application of investment impairment accounting change		6,991
Adjusted beginning balance at January 1, 2009		6,991
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized		18,639
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized		2,082
Ending balance at September 30, 2009	$	27,712

NOTE 3 — ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,			
(dollars in thousands)		2010		2009
Balance at beginning of period	$	32,292	$	44,565
Provision for (reversal of) loan losses		33,626		54,388
Charge-offs		(31,444)		(45,689)
Recoveries		179		34
Balance at end of period	$	34,653	$	53,298

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

The following table presents information concerning impaired loans as of September 30,

(dollars in thousands)		2010		2009
Impaired loans with related allowance	$	78,953	$	158,620
Impaired loans with no related allowance		124,693		137,576
Total impaired loans	$	203,646	$	296,196
Allowance on impaired loans	$	23,009	$	33,974

The following table summarizes impaired loan information for the nine months ended September 30,

(dollars in thousands)		2010		2009
Average impaired loans	$	215,653	$	193,454
Interest income recognized on impaired loans		1,370		483

NOTE 4 — FAIR VALUE MEASUREMENT

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

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

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

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

Level 1

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

The Bank's Level 1 assets at September 30, 2010 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

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

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

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

The Bank's Level 2 assets and liabilities at September 30, 2010 include derivative contracts and investment in U.S. government and agency mortgage-backed securities and U.S. agency debt securities, all of which have unadjusted values from third-party or internal pricing models. The underlying loans for these investment securities are residential mortgages. Level 2 assets also include federal funds sold, securities purchased under resale agreements, and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments is generally their face value, plus accrued interest, as these instruments are highly-liquid, readily convertible to cash, and short-term in nature.

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

Level 3

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

Level 3 assets at September 30, 2010 include certain loans evaluated for impairment under FASB guidance which have fair values based upon the underlying collateral as the loans were collateral-dependent loans. Since the value of the collateral, less estimated costs to sell, was less than the principle balance of the loan, specific reserves were established for these loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Level 3 assets at September 30, 2010 also include the Bank's mortgage-related asset-backed investment portfolio and non-agency CMO investment portfolio. The underlying loans for the asset-backed securities are mortgage related. The underlying loans for the non-agency CMO securities are residential mortgages. Based on the currently illiquid marketplace for these investments and the lack of marketplace information available as inputs and assumptions to the valuation process, the Bank classified the mortgage-related asset-backed investment portfolio and non-agency CMO investment portfolio as Level 3 assets. The fair value measurement of these assets involved management's judgment and was based on multiple factors including information obtained from third-party valuation services using both Level 2 and Level 3 inputs. The significant inputs for the valuation models include yields, probability of default, loss severity, and prepayment rates.

Other property owned is classified as a Level 3 asset at September 30, 2010. The fair value for other property owned is based upon the collateral fair value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned.

Level 3 liabilities at September 30, 2010 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at September 30, 2010 and December 31, 2009 for each of the fair value hierarchy levels:

	September 30, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	$ –	$ 4,777,091	$ –	$ 4,777,091
U.S. Govt. Agency MBS	–	1,899,189	–	1,899,189
Non-Agency CMOs	–	–	321,501	321,501
Asset-Backed Securities	–	–	40,403	40,403
Total Investments available-for-sale	–	6,676,280	361,904	7,038,184
Commercial paper, Bankers' Acceptances, CD's & Others	–	52,000	–	52,000
Federal funds sold, securities purchased under resale agreements, and other	–	8,610	–	8,610
Interest rate swaps and other financial instruments	–	80,647	–	80,647
Assets held in trust funds	2,781	–	–	2,781
Total Assets	$ 2,781	$ 6,817,537	$ 361,904	$ 7,182,222
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ 33	$ –	$ 33
Collateral liabilities	–	30,655	–	30,655
Standby letters of credit	–	–	1,261	1,261
Total Liabilities	$ –	$ 30,688	$ 1,261	$ 31,949

	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	$ –	$ 3,857,158	$ –	$ 3,857,158
U.S. Govt. Agency MBS	–	2,573,375	–	2,573,375
Non-Agency CMOs	–	–	360,027	360,027
Asset-Backed Securities	–	–	47,465	47,465
Total Investments available-for-sale	–	6,430,533	407,492	6,838,025
Commercial paper, Bankers' Acceptances, CD's & Others	–	86,690	–	86,690
Federal funds sold, securities purchased under resale agreements, and other	–	146,201	–	146,201
Interest rate swaps and other financial instruments	–	70,041	–	70,041
Assets held in trust funds	2,825	–	–	2,825
Total Assets	$ 2,825	$ 6,733,465	$ 407,492	$ 7,143,782
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ 229	$ –	$ 229
Collateral liabilities	–	14,065	–	14,065
Standby letters of credit	–	–	2,461	2,461
Total Liabilities	$ –	$ 14,294	$ 2,461	$ 16,755

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2010 and 2009. Non-agency CMO securities were transferred from Level 2 to Level 3 assets effective March 31, 2009 as the Bank began adjusting the valuation obtained from a third party pricing service for this portfolio to reflect, in part, the valuation obtained from a cash flow modeling process. Total credit losses of $1.4 million were included in earnings for the first quarter of 2009 for non-agency CMOs determined to be other-than-temporarily impaired. The Bank had no other transfers of assets or liabilities into or out of Level 1 or Level 2 during the first nine months of 2009 and the Bank had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first nine months of 2010.

(dollars in thousands)	**Asset-Backed Investment Securities**	**Non-Agency CMOs**	**Standby Letters Of Credit**
Balance at January 1, 2010	$ 47,465	$ 360,027	$ 2,461
Total gains or (losses) realized/unrealized:			
Included in earnings	(7,139)	(2,846)	–
Included in other comprehensive income (loss)	12,013	34,491	–
Purchases, sales, issuances and settlements, net	(11,936)	(70,171)	(1,200)
Transfers in and/or out of level 3	–	–	–
Balance at September 30, 2010	$ 40,403	$ 321,501	$ 1,261

(dollars in thousands)	**Asset-Backed Investment Securities**	**Non-Agency CMOs**	**Standby Letters Of Credit**
Balance at January 1, 2009	$ 79,961	$ –	$ 2,301
Total gains or (losses) realized/unrealized:			
Included in earnings	(15,966)	(3,312)	–
Included in other comprehensive income (loss)	22,495	41,149	–
Purchases, sales, issuances and settlements, net	(33,097)	(58,869)	393
Transfers in and/or out of level 3	–	397,320	–
Balance at September 30, 2009	$ 53,393	$ 376,288	$ 2,694

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

Assets and liabilities measured at fair value on a non-recurring basis at September 30, 2010 and December 31, 2009 for each of the fair value hierarchy values are summarized below:

	September 30, 2010				
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**YTD Total Gains (Losses)**
Assets:					
Impaired loans	$ –	$ –	$ 51,174	$ 51,174	$ (32,568)
Other property owned	–	–	12,078	12,078	1,764

	December 31, 2009				
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**YTD Total Gains (Losses)**
Assets:					
Impaired loans	$ –	$ –	$ 77,417	$ 77,417	$ (48,218)
Other property owned	–	–	27,969	27,969	–

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Bank's financial instruments at September 30, 2010 and December 31, 2009. Carrying amounts include accrued interest if applicable.

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

	September 30, 2010		December 31, 2009	
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Loans, net of allowance	$ 20,917,788	$ 21,223,494	$ 21,370,251	$ 21,509,619
Derivative assets	80,647	80,647	70,041	70,041
Cash and cash equivalents	563,350	563,350	938,884	938,884
Investment securities	8,213,191	8,269,932	8,245,741	8,264,765
Assets held in trust funds	2,781	2,781	2,825	2,825
Financial liabilities:				
Systemwide Debt Securities	$ 27,642,661	$ 27,788,389	$ 28,776,211	$ 28,794,189
Derivative liabilities	33	33	229	229

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

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

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

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

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

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

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

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

NOTE 6 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each Farm Credit System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the banks are jointly and severally liable for the bonds and notes of the other Farm Credit System banks. The bonds and notes of the System totaled $179.103 billion at September 30, 2010.

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

NOTE 7 — EMPLOYEE BENEFIT PLANS

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

	For the nine months ended September 30,	
(dollars in thousands)	**2010**	**2009**
Pension	$ 6,791	$ 6,363
401k	704	668
Other postretirement benefits	742	663
Total	$ 8,237	$ 7,694

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

(dollars in thousands)	**Actual YTD Through 9/30/10**	**Projected Contributions for Remainder of 2010**	**Projected Total Contributions 2010**
Pensions	$ 189	$ 7,083	$ 7,272
Other postretirement benefits	725	281	1,006
Total	$ 914	$ 7,364	$ 8,278

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

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

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

The primary type of derivative instrument used and the amount of notional activity for the nine months ended September 30, 2010 is summarized in the following table:

(dollars in millions)	**Receive-Fixed Swaps**
Balance at beginning of period	$ 1,373
Additions	50
Maturities/amortization	(200)
Terminations	–
Balance at end of period	$1,223

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

To minimize the risk of credit losses, the Bank deals with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of and levels of exposure to individual counterparties. The estimated gross credit risk exposure at September 30, 2010 of $80.6 million was with eight counterparties and represented approximately 6.59 percent of the total notional amount of interest rate swaps. The Bank held $30.6 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The Bank does not anticipate nonperformance by any of these counterparties. The estimated gross credit risk exposure at December 31, 2009 of $70.0 million was with eight counterparties and represented approximately 5.08 percent of the total notional amount of interest rate swaps. The Bank held $14.1 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties. At September 30, 2010, the Bank had not posted collateral with respect to any of these arrangements.

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

Fair-Value Hedges

For derivative instruments designated as a fair value hedges, the gains or losses on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the gain on interest rate swaps recognized in interest expense for the nine months ended September 30, 2010 was $10.6 million, while the amount of the loss on the Systemwide Debt Securities was ($10.6) million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

(dollars in thousands)	**Balance Sheet Classification – Assets**	**9/30/10 Fair Value**	**Balance Sheet Classification – Liabilities**	**9/30/10 Fair Value**
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 80,647	Other Liabilities	$ –
Total		$ 80,647		$ –

(dollars in thousands)	**Balance Sheet Classification – Assets**	**9/30/09 Fair Value**	**Balance Sheet Classification – Liabilities**	**9/30/09 Fair Value**
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 84,644	Other Liabilities	$ (19)
Total		$ 84,644		$ (19)

The following tables sets forth the effect of derivative instruments on the Statements of Income for the nine month periods ended September 30, 2010 and 2009. Amount presented is net.

(dollars in thousands)	**Location of Gain or (Loss) Recognized in the Statement of Income**	**9/30/10 YTD Amount of Gain or (Loss) Recognized in the Statement of Income**
Derivatives – Fair Value Hedging Relationships:		
Receive-fixed swaps	Noninterest Income	$ 131
Total		$ 131

(dollars in thousands)	**Location of Gain or (Loss) Recognized in the Statement of Income**	**9/30/09 YTD Amount of Gain or (Loss) Recognized in the Statement of Income**
Derivatives – Fair Value Hedging Relationships:		
Receive-fixed swaps	Noninterest Income	$ 488
Total		$ 488

NOTE 9 – DISTRICT MERGER ACTIVITY

In August 2010, the Boards of Directors of Farm Credit of North Florida, ACA (NF), Farm Credit of South Florida, ACA (SF), and Farm Credit of Southwest Florida, ACA (SWF) (collectively referred to as the "Three Merger Associations") approved a proposed Plan of Merger ("Merger"), where NF and SWF would merge with and into SF. The Merger has been approved by AgFirst and has received preliminary approval from the Farm Credit Administration (FCA). The Merger will be submitted to shareholders of the Three Merger Associations for their review and approval. Pending shareholder approval, the Merger is anticipated to be effective January 1, 2011.

NOTE 10 – SUBSEQUENT EVENTS

The Bank has evaluated subsequent events and has determined there are none requiring disclosure through November 5, 2010, which is the date the financial statements were issued.