2010 Annual Report

AgFirst Farm Credit Bank and District Associations

Farm Credit
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AgFirst Farm Credit Bank and District Associations

2010 ANNUAL REPORT

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F. A. (Andy) Lowrey .... Chief Executive Officer
Leon T. Amerson .... President and Chief Operating Officer
Charl L. Butler .... Senior Vice President and Chief Financial Officer
William L. Melton .... Senior Vice President and Chief Lending Officer
Benjamin F. Blakewood .... Senior Vice President and Chief Information Officer
Frederick T. Mickler, III .... Senior Vice President and General Counsel

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Message from the Chairman of the Board and the Chief Executive Officer

Our Bank and District have not been immune to the vast challenges that the financial industry has faced in recent years. Some of our Associations and their markets have been hit hard by the drop in the general economy and severe declines in real estate values. However, in general we have been very fortunate. Collectively, we have weathered the most significant economic downturn since the Great Depression.

In this environment, the value of our cooperative structure, the way we do business, and the combined financial strength of the Bank and its member Associations have been tested and proven. Backed by the resources and infrastructure of a major financial institution, our Association lenders have continued to serve our borrower-members one-on-one and to focus on the local communities where they live and work. Our District also benefits from its geographic size and diversity, which allow us to withstand periodic adversity in certain markets or commodities. As a united group, we are significantly stronger than we would be individually.

The AgFirst Business Model

We believe that the working relationships we have within our District are a source of strength that is unique to the Farm Credit System. The AgFirst Business Model, which is built on federated cooperative principles, directly benefits every member of our Associations.

The way we do business is based on just a few fundamentals. They may sound simplistic, but we believe they form a solid foundation for our business model. Borrowers own our Associations, whose purpose is to serve and add value for their members. Our Associations own the Bank and our purpose is to serve and add value for our Associations and their member/owners.

The primary statutory duty of AgFirst is to act as a funding source for our Associations. We also have certain defined responsibilities for ensuring the safe, sound, and permissible extension of credit within our District.

However, our Bank's self-defined goals are to provide services and financial benefits to our Associations that go beyond those required by statute or regulation. AgFirst offers services ranging from operational and technology support, to financial and accounting expertise, human resources consulting, and marketing services. These services are made available to all affiliates with a consistent standard of care and in a manner that benefits each of our Associations, regardless of size.

Another integral part of the AgFirst Business Model is the way we manage the Bank's balance sheet. By operating profitable lines of business, the Bank can generate enhanced earnings streams that ultimately lower Associations' costs of borrowing funds. These lines of business include a Capital Markets Unit, which participates in loans for agribusiness and production agriculture; and a Correspondent Lending Unit, which buys and services rural home loans. The Bank also facilitates loan pools for Associations, enabling them to manage their capital levels and fully serve their markets during periods of peak loan demand.

Enhanced Credit Risk Management

The current economic and financial climate poses unique challenges to our Associations' common mission to fully serve the agricultural credit needs of their markets. The ability to manage and diversify credit risk is more important today than it has ever been. Fortunately, the geographic size and diversity of our District, coupled with our combined financial strength, give us both the flexibility and the capacity to serve our customers and to manage our risks.

The Bank is committed to partnering with our Associations as they serve their markets. As a reliable financial intermediary, we can help individual Associations diversify their loan portfolios and fully serve their largest customers. In 2010, we reemphasized to Association management teams the Bank's commitment to purchase quality loans originated by the Associations that exceed the size they can safely hold or result in excessive commodity concentrations. This transfers those portfolio risks from the Association to the Bank where they can be managed effectively across the District. The primary benefit to our Associations is that they can concentrate on the specific needs of their creditworthy members with confidence, knowing that the Bank will be a reliable partner.

Financial Performance

The District had record earnings of $552 million in 2010, and we were able to return $274 million in patronage to our member/owners and other financial partners. Our ability to call and lower the cost of our debt significantly contributed to those earnings. Loan volume declined as the challenging economic climate continued. Although not yet as good as we would like, our credit quality stabilized. Our capital levels improved to historically strong levels.

We look forward to another challenging year with confidence. Our District is our family. As a family, we help each other and ensure our mutual success.

M. Wayne Lambertson
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

March 14, 2011

Report of Management

The accompanying Combined Financial Statements and related financial information appearing throughout this annual report have been prepared by management of AgFirst Farm Credit Bank (Bank) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the Combined Financial Statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all Combined Financial Statements, and that the assets of the Bank are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Bank and each affiliated District Agricultural Credit Association (District Association) maintain an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Audit Committee of the Board of Directors and to the Chief Executive Officer.

The Bank has a Code of Ethics for its Chief Executive Officer, Senior Financial Officers, and other Senior Officers who are involved with preparation and distribution of financial statements and maintenance of the records supporting the financial statements. A copy of the Bank Code of Ethics may be viewed on the Bank's website at www.agfirst.com.

The Combined Financial Statements have been examined by independent auditors, whose report appears elsewhere in this Annual Report. The Bank and each District Association are also subject to examination by the Farm Credit Administration.

The Combined Financial Statements, in the opinion of management, fairly present the combined financial condition of the Bank and District Associations. The undersigned certify that we have reviewed the 2010 Annual Report of the Bank and District Associations, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

M. Wayne Lambertson
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

Charl L. Butler
Senior Vice President and Chief Financial Officer

March 14, 2011

Report on Internal Control Over Financial Reporting

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

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

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

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

F.A. Lowrey
Chief Executive Officer

Charl L. Butler
Senior Vice President and Chief Financial Officer

March 14, 2011

Five-Year Summary of Selected Combined Financial Data

	As of or for the year ended December 31,				
(dollars in thousands)	**2010**	**2009**	**2008**	**2007**	**2006**
Combined Balance Sheet Data					
Cash and cash equivalents	**$ 1,463,700**	$ 981,041	$ 316,010	$ 612,841	$ 651,268
Investment securities	**8,259,552**	8,442,230	8,167,026	7,060,801	6,492,102
Loans	**23,032,893**	23,208,189	23,077,736	20,728,296	18,669,616
Less: allowance for loan losses	**182,329**	195,132	169,090	78,874	71,915
Net loans	**22,850,564**	23,013,057	22,908,646	20,649,422	18,597,701
Other property owned	**146,416**	73,354	14,228	8,504	5,122
Other assets	**829,775**	895,815	1,006,520	929,583	1,014,525
Total assets	**$ 33,550,007**	$ 33,405,497	$ 32,412,430	$ 29,261,151	$ 26,760,718
Obligations with maturities of one year or less	**$ 12,734,829**	$ 14,473,270	$ 14,284,135	$ 11,451,400	$ 10,134,550
Obligations with maturities greater than one year	**16,433,498**	15,080,200	14,781,569	14,018,677	13,092,985
Mandatorily redeemable preferred stock	**225,000**	225,000	225,000	225,000	225,000
Total liabilities	**29,393,327**	29,778,470	29,290,704	25,695,077	23,452,535
Perpetual preferred stock	**400,000**	400,000	400,000	400,000	150,000
Protected borrower equity	**3,641**	4,205	4,670	5,369	6,208
At-risk equity:					
Capital stock and participation certificates	**150,031**	138,504	129,529	127,147	118,817
Retained earnings					
Allocated	**1,318,996**	1,199,441	1,126,994	1,068,756	992,227
Unallocated	**2,575,592**	2,323,523	2,191,324	2,118,390	2,039,308
Accumulated other comprehensive income (loss)	**(291,580)**	(438,646)	(730,791)	(153,588)	1,623
Total shareholders' equity	**4,156,680**	3,627,027	3,121,726	3,566,074	3,308,183
Total liabilities and shareholders' equity	**$ 33,550,007**	$ 33,405,497	$ 32,412,430	$ 29,261,151	$ 26,760,718
Combined Statement of Income Data					
Net interest income	**$ 1,051,024**	$ 937,439	$ 817,864	$ 722,190	$ 673,836
Provision for (reversal of allowance for) loan losses	**138,228**	162,893	121,023	8,284	(717)
Noninterest income (expense), net	**(360,917)**	(409,679)	(333,321)	(301,989)	(264,184)
Net income	**$ 551,879**	$ 364,867	$ 363,520	$ 411,917	$ 410,369
Combined Key Financial Ratios					
Rate of return on average:					
Total assets	**1.66%**	1.12%	1.17%	1.48%	1.67%
Total shareholders' equity	**13.67%**	10.79%	10.07%	11.42%	12.40%
Net interest income as a percentage of average earning assets	**3.31%**	2.93%	2.66%	2.64%	2.80%
Net (chargeoffs) recoveries to average loans	**(0.66)%**	(0.59)%	(0.14)%	(0.01)%	(0.09)%
Total shareholders' equity to total assets	**12.39%**	10.86%	9.63%	12.19%	12.36%
Debt to shareholders' equity (:1)	**7.07**	8.21	9.38	7.21	7.09
Allowance for loan losses to loans	**0.79%**	0.84%	0.73%	0.38%	0.39%
Net Income Distribution					
Estimated patronage refunds and dividends:					
Cash	**$ 96,622**	$ 78,191	$ 101,203	$ 129,698	$ 114,325
Qualified allocated surplus	**24,726**	20,779	20,734	18,202	27,798
Nonqualified allocated surplus	**51,457**	45,462	67,605	90,743	92,988
Nonqualified retained surplus	**101,245**	62,269	65,449	71,700	62,038
Dividends	**1,203**	1,168	1,202	1,133	916
Perpetual preferred stock dividend	**27,413**	27,413	27,413	19,501	10,950

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

The following commentary reviews the Combined Financial Statements of condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, for the years ended December 31, 2010, 2009, and 2008. This information should be read in conjunction with the accompanying Combined Financial Statements, the Notes to the Combined Financial Statements, and other sections of this Annual Report. The accompanying Combined Financial Statements were prepared under the oversight of the Audit Committee of the Bank's Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" included in this Annual Report. See Note 1, *Organization and Operations*, in the Notes to the Combined Financial Statements for a discussion of the operations of the District.

The District is part of the Farm Credit System (the System), the country's oldest government-sponsored enterprise (GSE), created by Congress to provide sound, adequate, and constructive credit and closely related services to agriculture and rural America.

AgFirst and each Association are federally chartered instrumentalities of the United States and are individually regulated by the Farm Credit Administration (the FCA). In creating the System, it was the stated objective of Congress to "*encourage farmer- and rancher-borrowers' participation in the management, control, and ownership of a permanent system of credit for agriculture which will be responsive to the credit needs of all types of agricultural producers having a basis for credit, and to modernize and improve the authorizations and means for furnishing such credit and credit for housing in rural areas made available through the institutions constituting the Farm Credit System."* Consequently, the Associations are structured as cooperatives, and each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations jointly own all of AgFirst's voting stock. As such, the benefits of ownership flow to the same farmer/rancher-borrowers that the System was created to serve. Additional information related to the District's structure is discussed in Note 1, *Organization and Operations,* in the Notes to the Combined Financial Statements in this Annual Report to shareholders.

As of December 31, 2010, the District consisted of the Bank and twenty-two District Associations. All twenty-two were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate both long-term and short- and intermediate-term loans. Effective January 1, 2011, Farm Credit of North Florida, ACA, and Farm Credit of Southwest Florida, ACA, merged with and into Farm Credit of South Florida, ACA, which then changed its name to Farm Credit of Florida, ACA, reducing the number of Associations in the District to twenty.

AgFirst provides funding and related services to the District Associations, which, in turn, provide loans and related services to agricultural and rural borrowers. AgFirst has in place with each of the District Associations, a revolving line of credit, referred to as a "Direct Note." Each Association primarily funds its lending and general corporate activities by borrowing through its Direct Note. All assets of the Associations secure the Direct Notes. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations.

AgFirst and the Associations are chartered to serve eligible borrowers in Alabama, Delaware, Florida, Georgia, Maryland, Mississippi, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia, Puerto Rico, and portions of Kentucky, Louisiana, Ohio, and Tennessee. Three other Farm Credit Banks (FCBs) and an Agricultural Credit Bank (ACB), through a number of associations, provide loans and related services to eligible borrowers in the remaining portion of the United States. While owned by its related associations, each FCB manages and controls its own business activities and operations. The ACB is owned by its related associations as well as other agricultural and rural institutions, including agricultural cooperatives. Associations are not commonly owned or controlled and each manages and controls its own business activities and operations. Nevertheless, each FCB and its related associations operate in such an interdependent manner that the financial results of each bank are generally viewed on a combined basis with its related associations.

While combined District statements reflect the financial and operational interdependence of AgFirst and its Associations, AgFirst does not own or control the Associations and has limited access to Association capital. Therefore, Bank-only financial information (e.g. not combined with the Associations) has been set forth in Note 22, *Bank Only Financial Data,* in the Notes to the Combined Financial Statements for the purposes of additional analysis. In addition, AgFirst publishes a Bank-only financial report (electronic version of which is available on AgFirst's website at **www.agfirst.com**) that may be referred to for a more complete analysis of AgFirst's financial condition and results of operations.

FORWARD-LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of District's business. References to the USDA information in this section refer to the entire U.S. agricultural market and are not limited to the District.

The February 2011 USDA forecast estimates that 2010 farmers' net cash income, which is a measure of the cash income after payment of business expenses, increased to $91.3 billion, up $22.2 billion from 2009, and up $19.5 billion from its 10-year average of $71.8 billion. The improvement in 2010 farmers' net cash income was primarily due to an increase in livestock receipts of $21.7 billion. The USDA forecasts 2011 farmers' net cash income to increase to $98.6 billion, a $7.3 billion increase from 2010, and $26.8 billion above the 10-year average. Contributing to this forecasted increase in 2011 farmers' net cash income are increases in crop receipts of $24.0 billion, livestock receipts of $4.3 billion, and farm-related income of $300 million, partially offset by an increase in cash expenses of $19.7 billion, and a decline in direct government payments of $1.6 billion.

During 2010, feed prices declined through the first half of the year and export demand for livestock was strong resulting in the significant increase in livestock receipts. The forecast for crop receipts for 2010 was up from 2009 but not to the same extent as livestock. For 2011, crop receipts are forecasted to rise across a number of crop categories, particularly corn, soybeans, and cotton. Continued demand for ethanol, strong exports, and tight supplies are forecasted to contribute to significant commodity price increases. These increases, as well as uncertainty regarding future commodity price increases, could significantly raise input costs and place further pressure on certain dairy and livestock producers.

The following table sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2007 to December 31, 2010:

Commodity	12/31/10	12/31/09	12/31/08	12/31/07
Corn	$4.82	$3.60	$4.11	$3.76
Soybeans	$11.60	$9.80	$9.24	$10.00
Wheat	$6.45	$4.87	$5.95	$7.74
Beef Cattle	$98.10	$78.50	$79.70	$88.90

The USDA's February 2011 income outlook shows a great deal of variation depending on farm size, geographic location, and commodity specialties. The USDA classifies all farms into three primary categories: commercial farms, intermediate farms, and rural residential farms. Commercial farms, large-scale farms with gross sales greater than $250 thousand, represent about 10 percent of U.S. farms by number and represent 80 percent of total U.S. farm production. Commercial farms are expected to have a nearly 29 percent increase in average net cash income in 2010. Intermediate farms, defined as ones in which the primary occupation is farming and gross sales are between $10 thousand and $250 thousand, represent 30 percent of U.S. farms by number and account for 18 percent of total production. Intermediate farms are expected to have a 78 percent increase in average net cash income in 2010. The remaining 60 percent of U.S. farms are classified as rural residential farms where the primary occupation is not farming and the farms produce less than $10 thousand in products. Rural residential farms only account for 2 percent of total production.

In addition to farmers' net cash income, off-farm income is an important source of income for the repayment of farm debt obligations and is less subject to cycles in agriculture. However, off-farm income can be directly affected by conditions in the general economy. The USDA measures farm household income, which is defined as earnings from farming activities plus off-farm income. Nearly 100 percent of farm household income for operators of rural residential farms and more than 90 percent of farm household income for intermediate farms is generated from off-farm sources. Further, USDA data suggests that approximately 25 percent of farm household income for commercial farms is generated from off-farm income.

According to the USDA February 2011 forecast, farm sector asset values are expected to increase $64 billion or 3.1 percent to $2.121 trillion for 2010, reflecting increased expected returns on farm investments. The values of land, machinery/equipment, and inventories of crop, livestock, and poultry are expected to rise modestly in 2010. Farmers' equity (farm business assets minus debt) is expected to rise 3.8 percent from $1.812 trillion in 2009 to $1.881 trillion in 2010, largely due to an expected 3.1 percent increase in farm asset values and a 2.1 percent decline in debt.

One measure of the financial health of the agricultural sector used by the USDA is the assessment of farmers' utilization of their capacity to repay debt (actual debt as a percentage of maximum debt that can be supported by farmers' current income). Higher capacity utilization rates indicate tighter cash flow positions and, consequently, higher exposure to financial risk. Lower rates indicate healthier cash flow and financial position. These estimates do not take into account, however, off-farm income sources. Since 1970, debt repayment capacity utilization has ranged from a low of 37 percent in 1973 to a high of 110 percent in 1981, and has remained relatively stable since 1987, averaging about 50 percent. During 2010, repayment capacity utilization decreased to 45 percent due to the increase in farmers' net cash income. The forecast for 2011 predicts farmers' utilization to decline from 45 percent in 2010 to approximately 43 percent for 2011.

As estimated by the USDA in February 2011, the Farm Credit System's market share of farm business debt, defined as debt incurred by those involved in on-farm agricultural production, grew to 40.1 percent at December 31, 2009 (latest available data), as compared with 39.0 percent at December 31, 2008. Farm business debt is forecasted to rise slightly in 2011 to $241.6 billion from $240.3 billion in 2010. The USDA's forecast of rising debt is due to rising production costs, such as energy and feed, in 2011, which will drive certain crop and livestock producers to increase their debt loads.

In general, agriculture has experienced a sustained period of favorable economic conditions, due to stronger commodity prices, higher land values, and, to a lesser extent, government support programs. To date, the District's financial results have remained favorable as a result of these conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, the District's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general and agricultural economies remain volatile. Certain agriculture sectors, as described more fully in this Management Discussion and Analysis, experienced significant financial stress during 2010 and could continue to experience financial stress in 2011. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Consideration of the District's significant accounting policies is critical to the understanding of the District's results of operations and financial position because some accounting policies require complex or subjective judgments and estimates that may affect the value of certain assets or liabilities as well as the recognition of certain income and expense items. In many instances, management has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Combined Financial Statements. The following is a summary of certain critical accounting policies:

- *Allowance for loan losses* — The allowance for loan losses is management's best estimate of the amount of probable losses existing in and inherent in the District's loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals.

Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, and geographic, industry, and other factors. In addition to the allowance for loan losses attributable to specific loans, the District may also establish a general allowance for loan losses based on management's assessment of risk inherent in the loans in the District's portfolio that were not specifically evaluated. In establishing general reserves, factors affecting certain commodity types or industries may be taken into consideration, as well as other factors previously discussed. Certain loan pools purchased by the Bank from various Associations are analyzed in accordance with the selling Associations' allowance methodologies for assigning general and specific allowances. Allowances are established on these pools based on that analysis after Bank management's determination that the methodologies employed are appropriate.

Assessing the appropriateness of the allowance for loan losses is a dynamic process. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the level of the allowance for loan losses and have a direct impact on the provision for loan losses and the results of operations.

The overall adequacy of the allowance for loan losses is validated further based on periodic evaluations of the loan portfolio, which generally consider recent historical charge-off experiences adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, collateral value, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable active market exists. Management utilizes third party valuation services to obtain fair value prices for the majority of the District's investment securities. Management also utilizes significant estimates and assumptions to value items for which an observable active market does not exist. Examples of these items include: impaired loans, pension and other post retirement benefit obligations, certain derivatives, certain investment securities and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on the District's results of operations.

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including the expected long-term rate of return on plan assets and a discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of future benefit obligations. The discount rate for 2010 was selected by reference to analysis and yield curves developed by the plans' actuary and industry norms. The yield curve selected follows the accounting guidance that the basis for discount rates should be higher-quality zero-coupon bonds with durations that match the expected cash flows of the plans that underlie the obligation.

LOAN PORTFOLIO

The District's aggregate loan portfolio consists primarily of direct loans made by the Associations to eligible borrowers located within their chartered territories. Diversification of the loan volume by type for each of the past three years at December 31 is illustrated in the following table:

Loan Types *(dollars in thousands)*	**2010**		**2009**		**2008**	
Real Estate Mortgage	$ 9,986,760	43%	$ 9,870,486	42%	$ 9,425,180	41%
Production and Intermediate-Term	8,105,060	35	8,270,399	35	8,556,501	37
Rural Residential Real Estate	2,258,480	10	2,007,563	9	1,682,845	7
Processing and Marketing	1,355,811	6	1,652,286	7	1,945,207	8
Farm-Related Business	342,984	2	353,353	2	492,446	2
Energy	342,614	2	352,446	2	241,956	1
Loans to Cooperatives	304,161	1	355,392	2	318,818	2
Communication	200,578	1	185,261	1	247,364	1
Water and Waste Disposal	28,024	–	28,000	–	28,000	–
Lease Receivables	10,697	–	15,871	–	13,385	–
Loans to OFIs	5,000	–	7,000	–	7,150	–
Other (including Mission Related)	92,724	–	110,132	–	118,884	1
Total	$ 23,032,893	100%	$ 23,208,189	100%	$ 23,077,736	100%

Total loans outstanding were $23.033 billion at December 31, 2010, a decrease of $175.3 million, or 0.76 percent, compared to total loans outstanding at December 31, 2009. Loans outstanding at the end of 2009 had increased $130.5 million, or 0.56 percent, compared to December 31, 2008. Relatively modest loan demand, a trend that began in late 2008, reflects the persistent downturn in the general economy. Over the second half of 2010, there was consistent but very minimal growth in loan demand.

Since 2008, the weakened economy has affected the Bank's and District Associations' current and prospective customers in a number of ways, including fluctuating demand and prices for certain agricultural products and lower value for real estate and other investment holdings of some borrowers. These conditions have been detrimental to the general sentiment and financial capacity of many of the District's customers. As a result, many customers have reduced production, delayed expansion plans, and generally taken actions to preserve their investment and working capital. The weakened economy has resulted in a generally more conservative credit approach and, in some cases, business development resources have been redirected to problem asset management. 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 in 2011.

Credit quality has also been adversely affected by the weak economy since the second quarter of 2008. Certain commodity groups have been more adversely affected than others. 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 also negatively impacted by lower real estate values in certain geographic areas within the District's chartered territory, particularly in Florida. Beginning in 2008, real estate values declined, population growth slowed, and housing foreclosures increased in Florida. Other areas of the District experienced a less severe reduction in real estate values.

The poultry, pork, and dairy industries returned to profitability in 2010 after being stressed in 2008 and 2009. Profitability for producers in these industries was primarily achieved through lower cost of production and reduction of oversupply which has led to higher prices. However, this more favorable environment for the meat and dairy sectors, as well as the ethanol industry, began to decline in the third quarter of 2010. Most grain markets experienced price increases during the second half of 2010 as lower production was reported in the United States and in other grain growing countries. Higher grain and energy prices negatively impact profitability in the meat complex, dairy and ethanol industries. The future volatility of grain prices remains a primary concern to many of these producers.

Each loan in the District's portfolio is classified according to a Uniform Classification System, which is used by all System institutions. Below are the classification definitions.

- *Acceptable* – Assets are expected to be fully collectible and represent the highest quality.
- *Other Assets Especially Mentioned (OAEM)* – Assets are currently collectible but exhibit some potential weakness.
- *Substandard* – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- *Doubtful* – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- *Loss* – Assets are considered uncollectible.

Credit quality of District loans has declined since 2008. The following table presents selected statistics related to the credit quality of District loans including accrued interest at December 31:

Credit Quality	2010	2009	2008
Acceptable	86.87%	87.17%	92.23%
OAEM	6.65	5.98	3.88
Adverse*	6.48	6.85	3.89
Total	100.00%	100.00%	100.00%

* *Adverse loans include substandard, doubtful, and loss loans.*

Weakness continues in the housing related segments of the portfolio which include: lumber and building products companies, timber producers, landscape and sod nurseries, and borrowers with significant real estate debt. Increases in housing starts and a sustained recovery in the general economy are needed to improve the financial capacity of these borrowers.

Continued weakness in the general economy and resulting higher rate of unemployment could further compromise the credit quality of the District's part-time farmers. Many borrowers who have historically had stable income from non-farm sources such as stock portfolios and capital gains income from traded assets have seen reductions in these income sources.

Other major segments of the District loan portfolio continue to perform well, including the sugar, orange juice, and row crop segments.

Delinquencies (loans 90 days or more past due) were 2.05 percent of total loan assets at year-end 2010 compared to 1.42 percent and 0.65 percent at year-end 2009 and 2008, respectively.

Nonperforming assets for the District represented 4.30 percent of total loan assets or $1.003 billion, compared to 3.66 percent or $860.0 million for 2009, and 2.51 percent or $584.1 million for 2008. Nonperforming assets consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due, and other property owned.

District net loan charge-offs of $151.0 million, $136.9 million and $30.8 million were recognized in 2010, 2009 and 2008, respectively. As a percentage of total average loan assets, net charge-offs for the District were 0.66 percent for 2010, compared to 0.58 percent and 0.14 percent in 2009 and 2008, respectively. The Bank and each Association maintains an allowance for loan losses, determined by its management based upon its unique situation.

The District employs a number of risk management techniques to limit credit exposures. The District has adopted underwriting standards, individual borrower exposure limits, commodity exposure limits, and other risk management techniques. AgFirst and the Associations actively purchase and sell loan participations to achieve diversified portfolios. The District utilizes guarantees from U.S. government agencies/departments, including the Federal Agricultural Mortgage Corporation (Farmer Mac), the Farm Service Agency, and the Small Business Administration to further limit credit exposures. At December 31, 2010, the District collectively had $3.347 billion under such government or GSE guarantee programs, compared to $2.94 billion at December 31, 2009.

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.

The Associations primarily serve all or a portion of fifteen states and Puerto Rico. Additionally, AgFirst and the Associations actively purchase and sell loans and loan participations with non-District institutions. The resulting geographic diversity is a natural credit risk-reducing factor. The following table illustrates the geographic distribution of the District's loan volume outstanding by state for the past three years at December 31:

District Loan Volume by State

State	2010	2009	2008
North Carolina	15%	15%	14%
Florida	12	14	15
Georgia	12	12	12
Virginia	10	9	10
Pennsylvania	9	9	9
Maryland	6	6	6
Ohio	6	5	4
South Carolina	5	5	5
Alabama	3	3	3
Kentucky	3	3	3
Delaware	2	2	2
Mississippi	2	2	2
West Virginia	2	2	2
Tennessee	2	1	2
Louisiana	2	2	1
Texas	2	2	2
California	1	2	2
Missouri	1	1	1
New York	1	1	1
Puerto Rico	1	1	1
Colorado	1	1	1
Minnesota	1	1	1
Other	1	1	1
Total	100%	100%	100%

Only four states have loan volume representing 10.00 percent or more of the total. Commodity diversification, guarantees, and borrowers with significant reliance on non-farm income further mitigate the geographic concentration risk in these states.

The diversity of commodity types and income sources supporting loan repayment further mitigates credit risk to the District. The District's credit portfolios are comprised of a number of segments having varying, and in some cases complementary, agricultural characteristics. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer. The following table illustrates the aggregate credit portfolio of the District by major commodity segments at December 31:

	Percent of Portfolio		
Commodity Group	**2010**	**2009**	**2008**
Forestry	13%	12%	13%
Poultry	10	10	10
Rural Home	10	9	7
Fruits and Vegetables	9	9	9
Cattle	7	7	7
Other Real Estate	6	6	6
Dairy	5	5	5
Grain	5	5	4
Processing	4	6	7
Nursery/Greenhouse	4	4	5
Swine	3	3	3
Corn	3	2	2
Lumber	2	4	4
Tobacco	2	2	2
Cotton	2	2	2
Citrus	2	2	2
Other	13	12	12
Total	100%	100%	100%

Diversification is further enhanced by a prevalence of non-farm income among the borrowers, as demonstrated by the following table as of December 31 of each year, which segregates part-time farm loans into a unique segment. Part-time farming is defined as farming not being the primary business or vocation of the applicant with agricultural operations representing less than 50 percent of their total business income.

	Percent of Portfolio		
Commodity Group	**2010**	**2009**	**2008**
Part-time Farmers	30%	30%	31%
Rural Home	10	8	7
Poultry	9	9	9
Forestry	6	7	6
Fruits/Vegetables	5	5	5
Dairy	5	5	5
Grain	4	4	3
Processing	3	4	4
Nursery/Greenhouse	3	4	4
Cattle	3	3	3
Corn	3	2	2
Swine	2	3	3
Cotton	2	2	2
Tobacco	2	2	2
Citrus	2	2	2
Other Real Estate	2	2	2
Lumber	2	1	1
Other	7	7	9
Total	100%	100%	100%

As illustrated in the above chart, the District had concentrations of *full-time farmers* of 5.00 percent or greater in only four commodities at December 31, 2010: poultry, forestry, fruits/vegetables, and dairy. All four commodities have a large geographic dispersion with production over the entire District footprint. Also, many poultry, forestry, fruits/vegetables, and dairy producers have significant secondary income from off-farm employment by a family member.

Concentrations within the District are further limited through the number of farm units producing poultry or dairy products. Poultry concentration is further dispersed as production is segregated among chicken, turkey, and egg production. Dairy herds range in size from less than one hundred cows to approximately ten thousand. Lower cost of production and reduction of oversupply have proved beneficial to poultry and dairy producers in 2010.

Forestry is divided principally into hardwood and softwood production and value-added processing. The timber from hardwood production is further processed into furniture, flooring, and high-grade paper and is generally located at the more northern latitudes and higher elevations. Softwood timber production is typically located in the coastal plains of the District footprint and is used for building material for the housing market and pulp to make paper and hygiene products. Forestry production at the Associations ranges from less than fifty acres to thousands of acres, with value-added processing being conducted at sawmills, planer mills, and paper mills.

The fruits/vegetables portion of the aggregate Association portfolio is made up of a diverse group of many different fruits and vegetables grown throughout the District footprint. The volume is spread broadly over the base of Associations.

Loans exceeding an Association's delegated lending authority must be pre-approved by AgFirst. As a result, larger agribusiness loans are typically analyzed by AgFirst's commercial lending staff as well as the Association's own lending staff prior to an Association's committing to such loans.

Loans under $500 thousand comprise 52.22 percent of outstanding loan volume, and loans less than $250 thousand make up approximately 35.18 percent of loan volume. This diversification across a large number of borrowers is another key component of the District's credit risk diversification and solid financial performance over time.

Exposure to losses is reduced further through collateralization and other credit enhancements, including federal government guarantees. Typically, multiple loans to the same borrower are cross-collateralized and cross-defaulted. By law, all long-term loans must be secured by a first lien on real estate with an initial loan to appraised value not exceeding 85.00 percent. As of December 31, 2010, 43.36 percent of the District loans were identified as secured by a first lien on real estate.

MISSION RELATED INVESTMENTS

The FCA initiated a program in 2005 to allow System institutions to make and hold investments that stimulate economic growth and development in rural areas. The investments are subject to approval by the FCA on a case-by-case basis. FCA approved the Rural Housing Mortgage-Backed Securities pilot program and the Rural America Bonds pilot program as described below. The FCA also approved System participation in the Tobacco Buyout Program as described below.

Rural Housing Mortgage-Backed Securities

Rural Housing Mortgage-Backed Securities (RHMS) must be fully guaranteed by a government agency or GSE. The rural housing loans backing the RHMS must be conforming first-lien residential mortgage loans originated by non-System lenders in "rural areas" as defined by the Farm Security and Rural Investment Act of 2002, or eligible rural housing loans originated by System lenders under FCA Regulations. Investment securities at December 31, 2010 included $902.6 million in RHMS classified as held-to-maturity, compared to $1.237 billion at December 31, 2009. In November 2009, the FCA approved a continuation of the RHMS program for another three years.

Rural America Bonds

In October 2005, the FCA approved the Rural America Bonds investment program for a three-year pilot period. In recognition of the economic interdependence between agricultural and rural communities, AgFirst and the Associations seek to safely and soundly invest in debt obligations that support farmers, ranchers, agribusinesses, and their rural communities and businesses. In doing so, AgFirst and the Associations hope to increase the well-being and prosperity of American farmers, ranchers, and rural residents. As of December 31, 2010, the District had $309.6 million in the Rural America Bond program, compared to $289.6 million at December 31, 2009. Of the $309.6 million, the District had $228.6 million reflected in investment securities and $81.0 million reflected as loans on the Combined Balance Sheets at December 31, 2010. The FCA approved a continuation of the program at October 31, 2008 for an as yet undetermined time period.

Tobacco Buyout Program

On October 22, 2005, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2005" (Tobacco Act) as part of the "American Jobs Creation Act of 2005." The Tobacco Act repealed the federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota, and provided an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that they may obtain a lump sum or other payment. On April 4, 2006, the United States Department of Agriculture (USDA) issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA determined that System institutions are "financial institutions" within the meaning of the Tobacco Act and were therefore eligible to participate in the Tobacco Buyout. The FCA recognized that the Tobacco Buyout had significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA's goal was to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

As of December 31, 2010, District Associations held Tobacco Buyout loan assignments of $54.2 million, which are reflected as loans on the Combined Balance Sheets, compared to $64.3 million at December 31, 2009. The District Associations also hold Successor-in-Interest Contracts (SIIC) which totaled $306.0 million, and were reflected as other investments on the Combined Balance Sheets at December 31, 2010, compared to $367.5 million at December 31, 2009.

FARMER MAC

At December 31, 2010, AgFirst owned $840 thousand of class B voting restricted common stock, $391 thousand of class C non-voting unrestricted stock, $11.1 million of Farmer Mac MBS investment securities and had $123.8 million of loans guaranteed by Farmer Mac. District Associations had $251.1 million of loans guaranteed by Farmer Mac at December 31, 2010.

RISK MANAGEMENT

Overview

The District is in the business of making agricultural and other loans that requires accepting certain risks in exchange for compensation for the risks undertaken. Proper management of the risks inherent in the District's business is essential for current and long-term financial performance. The objectives of risk management are to identify and assess risks, and to properly and effectively mitigate, measure, price, monitor, and report risks in the District's business activities.

Types of risks to which the District has exposure include:

- *structural risk* — risk inherent in the business and related to the System structures comprised of interdependent networks of cooperative lending institutions,
- *credit risk* — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed,
- *interest rate risk* — risk that changes in interest rates may adversely affect the District's operating results and financial condition,
- *liquidity risk* — risk of loss arising from the inability to meet obligations when they come due without incurring unacceptable losses,
- *operational risk* — risk of loss resulting from inadequate or failed internal processes or systems, errors by employees or external events, and
- *political risk* — risk of loss of support for the System and agriculture by federal and state governments.

Structural Risk Management

Structural risk results from the fact that AgFirst, along with its related Associations, is part of the System, which is comprised of banks and associations that are cooperatively owned, directly or indirectly, by their borrowers. Because System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. The Federal Farm Credit Banks Funding Corporation (Funding Corporation) provides for the issuance, marketing, and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The System banks fund association loans with Systemwide debt. Refer to Note 9, *Bonds and Notes*, in the Notes to the Combined Financial Statements for further discussion. The banks are jointly and severally liable for the repayment of Systemwide Debt Securities, exposing each bank to the risk of default of the others. Although capital at the association level reduces the banks' credit exposures with respect to their related associations, that capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

In order to mitigate this risk, the System utilizes two integrated contractual agreements executed by and among the banks— the Amended and Restated Contractual Interbank Performance Agreement (CIPA) and the Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score is calculated that measures the financial condition and performance of each district using various ratios that take into account each district's and bank's capital, asset quality, earnings, interest-rate risk, and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each district must achieve and maintain. The CIPA also establishes monetary penalties if the performance standard is not met. These penalties will occur at the same point at which a bank would be required to provide additional monitoring information under the MAA.

The MAA establishes criteria and procedures for the banks that provide operational oversight and control over a bank's access to System funding if the creditworthiness of the bank declines below certain agreed-upon levels. The MAA provides for the identification and resolution of individual bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions for each bank's participation in each issuance of Systemwide Debt Securities.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in outstanding loans, letters of credit, unfunded loan commitments, the investment portfolio and derivative counterparty credit exposures. The District manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Associations set underwriting standards and lending policies consistent with FCA regulations and Bank underwriting standards, which provide direction to loan officers and are approved by the respective boards of directors.

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

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

Through their participation in loans or interests in loans to/from other institutions within the System and outside the System, the Bank and District Associations limit their exposure to both borrower and commodity concentrations. This also allows the Bank and District Associations to manage growth and capital, and to improve geographic diversification. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

The District's loan portfolio is divided into performing and high-risk categories. Although high risk assets remain elevated compared to historical levels, as a result of the credit risk management process, the District's high-risk assets continue to be a small percentage of the total loan volume and total assets. The high-risk assets, including accrued interest, at December 31 are detailed in the following table:

(dollars in thousands)	2010	2009	2008
High-risk Assets			
Nonaccrual loans	$ 795,076	$ 769,653	$ 551,458
Restructured loans	49,231	8,871	1,057
Accruing loans 90 days past due	12,716	13,118	17,387
Accruing loans less than 90 days past due	–	10,119	–
Total high-risk loans	857,023	801,761	569,902
Other property owned	146,416	73,354	14,228
Total high-risk assets	$ 1,003,439	$ 875,115	$ 584,130
Ratios			
Nonaccrual loans to total loans	3.45%	3.32%	2.39%
High-risk assets to total assets	2.99%	2.57%	1.80%

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 increased $25.4 million, net of charge-offs and transfers to other property owned, in 2010 primarily due to nine borrower relationships in the ethanol, cattle, other real estate, forestry, fruits and vegetables, and other industries, which in total comprise 21.65 percent of the total nonaccrual loan balance at December 31, 2010. The ten largest nonaccrual loan relationships accounted for 22.89 percent of the total nonaccrual balance at December 31, 2010. These ten largest nonaccrual relationships were in the forestry (36.23 percent of the ten largest total), ethanol (27.07 percent), cattle (16.42 percent), other real estate (12.50 percent), other (5.77 percent) and fruits/vegetables other (2.01 percent) industries. Some of these nonaccrual loans are secured by real estate, which has been negatively impacted by the current economic environment as discussed previously. Nonaccrual loans were 3.45 percent of total loans outstanding at December 31, 2010. District management reviews, on an ongoing basis, the District's acceptable level of risk tolerance at the individual loan and portfolio levels. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

A troubled debt restructuring occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank or District Associations would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms or rates or a compromise of amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by both the lender and the borrower. District troubled debt restructurings totaled $151.9 million at December 31, 2010, comprised of $49.2 million of accruing restructured loans and $102.7 million of nonaccruing restructured loans. Restructured loans were primarily in the forestry (31.34 percent of the total), swine (24.00 percent), nursery/greenhouse (9.81 percent), and other real estate (7.32 percent) segments.

Other property owned (OPO) consists of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO increased $73.1 million during 2010 and totaled $146.4 million at December 31, 2010. For 2010, transfers to OPO were $162.0 million, which are composed in part of two properties, a cattle and groves land holding of $25.5 million and another land holding of $12.6 million. Proceeds from the sales of OPO were $65.3 million, the largest of which was the sale of the District's $7.6 million interest in an ethanol production facility. The largest OPO holding at December 31, 2010 which consisted of a cattle and groves land holding, was $18.6 million (12.69 percent of the total). See discussion of OPO expense in the *Noninterest Income* section below.

Although neither the Bank nor any other System institution receives any direct government support, credit quality is indirectly enhanced by government support in the form of program payments to borrowers, which improve their ability to honor their commitments. However, due to the geographic location of the District and the resulting types of agriculture, government programs account for a relatively small percentage of net farm income in the territory served by the District Associations.

Interest Rate Risk Management

The objective of interest rate risk management is to generate an adequate level of net interest income in any interest rate environment. AgFirst uses a variety of analytical techniques to manage the complexities associated with offering numerous loan options. Interest rate sensitivity gap analysis is used to monitor the repricing characteristics of the District's interest-earning assets and interest-bearing liabilities. Simulation analysis is used to determine the potential change in net interest income and in the market value of equity under various possible future market interest rate environments.

The District adheres to a philosophy that loans should be priced competitively in the market and that loan rates and spreads should be contractually established at loan closing such that a borrower is not subject to rate changes at the discretion of management or boards of directors. Therefore, District Association variable rate and adjustable rate loans are generally indexed to market rates, and fixed rate loans are priced based on market rates at closing. Loan products offered by the Associations include: prime-indexed variable rate loans, LIBOR-indexed variable rate loans, one-, three-, and five-year Treasury-indexed adjustable rate loans, and fixed rate loans. Variable rate and adjustable rate loans are offered with or without caps. Terms are available for up to 30 years. A variety of repayment options are offered, with the ability to pay on a monthly, quarterly, semi-annual or annual frequency. In addition, customized repayment schedules may be negotiated to fit a borrower's unique circumstances.

The following tables represent the District's projected change in net interest income and market value of equity for various rate movements as of December 31, 2010:

Net Interest Income
(dollars in thousands)

Scenarios	Net Interest Income	% Change
+4.0% Shock	$890,380	18.79%
+2.0% Shock	$856,991	14.34%
Base line	$749,519	- %
-50% of 3M Tbill **	$742,229	(0.97)%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities	Equity*	% Change
Book Value	$33,512,803	$29,896,289	$3,616,514	- %
+4.0% Shock	$31,516,286	$27,868,469	$3,647,817	(6.59) %
+2.0% Shock	$32,737,225	$28,856,535	$3,880,690	(0.63) %
Base line	$33,849,620	$29,944,400	$3,905,220	- %
-50% of 3M Tbill**	$33,875,110	$29,977,006	$3,898,103	(0.18) %

* *For interest rate risk management, the $400.0 million in perpetual preferred stock of the Bank is included in liabilities rather than equity.*

** *When the three-month Treasury bill interest rate is less than 4 percent, both the minus 200 and minus 400 basis point shocks are replaced with a downward shock equal to one-half of the three-month Treasury bill rate. As of December 31, 2010, the falling interest rate shock was a decline in rates of 0.06%.*

The following table sets forth the repricing characteristics of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2010. The amount of assets and liabilities shown in the table, which reprice or mature during a particular period, were determined in accordance with the earlier of term-to-repricing or contractual maturity, anticipated prepayments, and, in the case of liabilities, the exercise of call options.

Repricing/Maturity Gap Analysis

(dollars in thousands)	0 to 6 months	6 months to 1 Year	1 to 5 Years	Over 5 Years	Total
Floating Rate Loans					
Adjustable/Indexed Loans	$ 5,897,635	$ 112,011	$ 206,667	$ 38,123	$ 6,254,436
Fixed Rate Loans					
Fixed Rate Loans	60,925	39,214	162,793	37,399	300,331
Fixed Rate Prepayable	5,586,267	2,926,660	6,091,524	1,078,599	15,683,050
Nonaccrual Loans					
Nonaccrual Loans	–	–	–	795,076	795,076
Total Loans	11,544,827	3,077,885	6,460,984	1,949,197	23,032,893
Total Investments*	3,818,426	1,260,201	2,640,433	601,236	8,320,296
Other Earning Assets	76,490	–	229,469	–	305,959
TOTAL INTEREST EARNING ASSETS	**$ 15,439,743**	**$ 4,338,086**	**$ 9,330,886**	**$ 2,550,433**	**$ 31,659,148**
Interest-Bearing Liabilities					
Systemwide bonds and notes	13,116,069	$ 6,002,000	$ 8,221,000	$ 986,500	$ 28,325,569
Other interest-bearing liabilities	206,969	225,000	–	–	431,969
Interest rate swaps	935,000	(400,000)	(385,000)	(150,000)	–
TOTAL INTEREST-BEARING LIABILITIES	**$ 14,258,038**	**$ 5,827,000**	**$ 7,836,000**	**$ 836,500**	**$ 28,757,538**
Interest Rate Sensitivity Gap	**$ 1,181,705**	**$ (1,488,914)**	**$ 1,494,886**	**$ 1,713,933**	
Sensitivity Gap as % of Total Earning Assets	3.73%	(4.70)%	4.72%	5.41%	
Cumulative Gap	1,181,705	$ (307,209)	$ 1,187,677	$ 2,901,610	
Cumulative Gap as a % of Total Earning Assets	3.73%	(0.97)%	3.75%	9.17%	
Rate Sensitive Assets/Rate Sensitive Liabilities	1.08	0.74	1.19	3.05	

** includes cash equivalents*

At December 31, 2010, the Repricing/Maturity Gap showed the District with a low cumulative liability sensitive position out to one year as repricing/maturing debt exceeded assets that mature or reprice during that time period. The Gap position reflected a low level of interest rate sensitivity for the District. Liability sensitivity implies an increase in net interest income in falling interest rate scenarios and lower net interest income in rising interest rate scenarios. However, the Repricing/Maturity Gap Analysis is a "point in time" view and is representative of the interest rate environment at December 31, 2010.

The Repricing/Maturity Gap Analysis must be used with other analysis methods as the maturity and repricing attributes of balance sheet accounts react differently in changing interest rate environments. During a period of rising interest rates, call options on fixed rate debt are not exercised and the debt terms extend to reflect the longer original maturity dates. Prepayment optionality on fixed rate assets also slows as the economic incentive for borrowers to refinance decreases and extends the asset's term. To supplement the Repricing Maturity Gap Analysis the Bank utilizes financial simulation modeling. The results of simulation analyses on the District balance sheet as shown in the table above for projected change in net interest income indicates that the extension of debt maturity/repricing occurs at a faster pace than the extension of assets. This resulted in the balance sheet having an asset sensitive position in a rising interest rate scenario and subsequently an increase in net interest income. In a falling interest rate scenario, the balance sheet maturity/repricing position is relatively neutral. However, it should be noted that the low level of interest rates limits the falling interest rate scenario to a minimal change for the down interest rate shock.

At December 31, 2010, AgFirst had outstanding interest rate swaps with notional amounts totaling $1.135 billion. All of these derivative transactions were executed to create synthetic floating-rate debt to achieve a lower cost of funding. AgFirst also had forward contracts to create a fixed purchase price with notional amounts totaling $444.5 million at December 31, 2010 (see further discussion below). The Bank may also use derivatives for asset/liability management purposes to reduce interest rate risk.

As of December 31, 2010, the Bank had committed to purchase $444.5 million of GNMA securities all settling by March, 2011. These commitments are considered (cash flow hedging) derivatives in the form of forward contracts. The market value of these securities had declined $8.8 million between the time the Bank had committed to purchase the securities and year-end. This amount, which represents the effective portion of the Bank's forward contracts, is included as a debit in Other Comprehensive Income (OCI) and as a credit in Other Liabilities as firm commitments in the District's Combined Balance Sheet at December 31, 2010.

AgFirst policy prohibits the use of derivatives for speculative purposes. See Note 19, *Derivative Instruments and Hedging Activities*, in the Notes to the Combined Financial Statements for additional information. The following table shows the activity in derivatives during the year ended December 31, 2010:

Notional amounts *(dollars in millions)*	**Receive Fixed**	**Forward Contracts**
Balance at December 31, 2009	$ 1,373	$ –
Additions	50	445
Maturities/amortizations	(288)	–
Terminations	–	–
Balance at December 31, 2010	$ 1,135	$ 445

Liquidity Risk Management

AgFirst and the District Associations maintain adequate liquidity to satisfy the District's daily cash needs. Along with normal cash flow associated with lending operations, the District has two primary sources of liquidity: investments, including its available-for-sale portfolio; and the capacity to issue Systemwide Debt Securities. The Bank also maintains several lines of credit with commercial banks, as well as three securities repurchase agreement facilities. Providing liquidity for the District's operations is primarily the responsibility of the Bank.

Investments and Cash and Cash Equivalents

Investment securities and cash and cash equivalents outstanding as of December 31, 2010 for the District totaled $9.723 billion compared to $9.423 billion and $8.483 billion at December 31, 2009 and 2008, respectively.

Cash and cash equivalents, which increased $482.7 million from December 31, 2009 to a total of $1.464 million at December 31, 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 increase in cash and cash equivalents was primarily due to the greater amount of cash needed to maintain 15 days of liquidity coverage on maturing debt at December 31, 2010 compared to December 31, 2009.

Investment securities totaled $8.260 billion, or 24.62 percent of total assets at December 31, 2010, compared to $8.442 billion, or 25.27 percent, as of December 31, 2009. Investment securities decreased $182.7 million, 2.16 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.

The District's investment portfolio and cash and cash equivalents consisted of the following security types as of December 31:

	District Investment Securities and Cash and Cash Equivalents					
(dollars in thousands)	**2010**		**2009**		**2008**	
Investment Securities						
Available for Sale						
U.S. Govt. GNMA MBS/CMOs	$ 4,947,011	59.89%	$ 3,857,159	45.69%	$ 3,245,283	39.73%
U.S. Govt. Agency MBS	1,747,391	21.16	2,573,375	30.48	2,533,993	31.03
Non-Agency Securities	295,526	3.58	360,026	4.26	404,321	4.95
Asset-Backed Securities	34,437	0.42	85,896	1.02	95,963	1.18
Commercial MBS	925	0.01	9,814	0.12	11,767	0.14
Total Available for Sale	$ 7,025,290	85.06	$ 6,886,270	81.57	$ 6,291,327	77.03
Held to Maturity						
Rural Housing MBS	$ 902,557	10.93	$ 1,237,233	14.66	$ 1,494,837	18.30
MBS Guaranteed by Farmer Mac	11,091	0.13	12,818	0.15	15,355	0.19
Other Asset-Backed Securities	82,452	1.00	96,580	1.14	131,877	1.62
Mission Related Investments	238,162	2.88	209,329	2.48	233,630	2.86
Total Held to Maturity	1,234,262	14.94	1,555,960	18.43	1,875,699	22.97
Total Investment Securities	$ 8,259,552	100.00%	$ 8,442,230	100.00%	$ 8,167,026	100.00%
Cash and Cash Equivalents						
Cash	$ 1,402,956	95.85%	$ 748,150	76.26%	$ 46,380	14.68%
Fed Funds	–	–	–	–	–	–
Master Notes	52,000	3.55	86,690	8.84	82,000	25.95
Repos	8,744	0.60	146,201	14.90	187,630	59.37
Total Cash and Cash Equivalents	$ 1,463,700	100.00%	$ 981,041	100.00%	$ 316,010	100.00%
Total Investment Securities and Cash and Cash Equivalents	$ 9,723,252		$ 9,423,271		$ 8,483,036	

As of December 31, 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. In response to recent economic conditions, the Bank strengthened its liquidity policies to provide for an increase in cash and cash equivalents to a minimum of 15 days coverage in these instruments.

At December 31, 2010, AgFirst's coverage was 208 days compared to 151 days at December 31, 2009. At December 31, 2010, the Bank's cash and cash equivalents position provided 24 days of the total 208 days of liquidity coverage. Investment securities fully backed by the U.S. government provided an additional 133 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 208 days.

FCA regulations also provide that a System bank may hold certain eligible available–for-sale investments in an amount not to exceed 35.00 percent of its total loans outstanding. These investments serve to provide liquidity to the Bank's operations, to manage short-term funds, and to manage interest rate risk. AgFirst maintains an investment portfolio for these purposes comprised primarily of short-duration, high-quality investments. At year-end 2010, the Bank's eligible available-for-sale investments were 33.67 percent of the Bank's total loans outstanding.

The District also maintains a portfolio of investments that are not held for liquidity purposes and are accounted for as a held-to-maturity portfolio. These investments are authorized by FCA Regulations that allow investments in Farmer Mac securities and also in specific investments approved by the FCA as Mission Related Investments. The vast majority of this portfolio is comprised of Mission Related Investments for a program to purchase RHMS, not to exceed 10.00 percent of total outstanding loans (see *Mission Related Investments* section above). Investment securities classified as being held-to-maturity totaled $1.234 billion at December 31, 2010.

Investment securities classified as being available-for-sale totaled $7.025 billion at December 31, 2010. Available-for-sale investments included $4.947 billion in Agency Collateralized Mortgage Obligations (CMOs), $1.747 billion in Agency Adjustable Rate Mortgages, $295.5 million in non-agency CMOs, $34.4 million in asset-backed securities and $925 thousand in commercial mortgage backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

The FCA considers an asset-backed or mortgage-backed investment security ineligible if it falls below the top category (AAA/Aaa) credit rating by the Nationally Recognized Statistical Rating Organizations (NRSROs). The FCA requires System institutions to divest of such an investment unless the FCA grants specific approval to continue to hold an ineligible security. For each of the investment securities in the District's portfolio at December 31, 2010 rated below AAA/Aaa (total fair value of $235.2 million and amortized cost of $289.4 million), the District has developed and submitted plans for approval by the FCA that provide that the District may continue to hold the securities. The FCA has approved, with conditions, the District's plans for all but five investments that have recently become ineligible. The District has submitted plans to hold these five investments to the FCA for approval and is awaiting a response. Management is of the opinion that holding these securities will result in a higher return for the District than selling them in the current illiquid market. Based on the District's analysis, no other-than-temporary credit related impairment was recognized on these recently ineligible securities.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain District ineligible securities are risk weighted between 200 percent and 50 percent instead of the standard 20 percent. These ineligible securities had a fair value of $125.3 million and amortized cost of $156.9 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 $62.6 million and amortized cost of $76.6 million at December 31, 2010. See the *Capital* 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 $43.3 million at December 31, 2010, compared to a total net unrealized loss amount of $121.9 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 District performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Additional analysis for each security not rated in the top category by the NRSROs is performed using a cash flow model with key assumptions and performance factors which may include credit default rate, prepayment rate, and loss severity. The objective is to quantify future possible loss of principal or interest due on each identified security. The credit enhancements specific to the individual security are considered as appropriate, and may include monoline credit insurance, subordination, over-collateralization, and excess interest spread. Asset-backed securities covered by insurers are analyzed with insurance and without, to quantify the extent of reliance on their guarantee. Based on the results of all analyses, the District recognized other-than-temporary credit related impairment of $11.9 million on asset-backed securities and non-agency CMOs in its portfolio during the year ended December 31, 2010, 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 $10.6 million life to date ($4.9 million in 2010), compared to total other-than-temporary credit related impairment charges life to date of $35.9 million ($7.9 million in 2010). Total other-than-temporary credit related impairment charges on non-agency CMOs have totaled $9.5 million life to date ($4.0 million in 2010). There have been no payment shortfalls on non-agency CMOs. See Note 3, *Investment Securities*, in the Notes to the Combined Financial Statements for further information.

The District considers both a price, or "mark," provided by a third party pricing service and also a value determined using the results of a modeling process 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.

Systemwide Debt Securities

AgFirst's primary source of liquidity comes from its ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the System banks. AgFirst continually raises funds to support its mission to provide credit and related services to the rural and agricultural sectors, to repay maturing Systemwide Debt Securities, and to meet other obligations. As a GSE, AgFirst has access to the nation's and world's debt and capital markets. This access has provided AgFirst with a dependable source of competitively priced debt that is critical to support its mission. Moody's Investors Service and Standard & Poor's rate the System's long-term debt as Aaa and AAA, and short-term debt as P-1 and A-1+, respectively. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's GSE status. Material changes to the factors considered could result in a different debt rating. Despite some continuing adversity in the financial debt markets, as a result of the System's financial performance, credit quality and standing in the capital markets, AgFirst anticipates continued access to funding necessary to support the System's and Bank's needs. The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. AgFirst's year-to-date average balance of Systemwide Debt Securities at December 31, 2010, was $28.201 billion. At December 31, 2010, AgFirst had $28.326 billion in total System debt outstanding compared to $28.694 billion at December 31, 2009 and $28.053 billion at December 31, 2008.

AgFirst's participation in outstanding Systemwide Debt Securities as of December 31, 2010 is shown in the following table:

	Bonds		Discount Notes		Total	
Maturities	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
			(dollars in thousands)			
2011	$ 8,526,558	0.80%	$ 3,702,254	0.26%	$ 12,228,812	0.64%
2012	5,610,687	0.72	-	-	5,610,687	0.72
2013	3,199,581	1.28	-	-	3,199,581	1.28
2014	1,726,951	1.74	-	-	1,726,951	1.74
2015	1,434,796	2.11	-	-	1,434,796	2.11
2016 and after	4,124,742	3.09	-	-	4,124,742	3.09
Total	$ 24,623,315	1.37%	$ 3,702,254	0.26%	$ 28,325,569	1.22%

In the preceding table, weighted average interest rates include the effect of related derivative financial instruments.

Refer to Note 9, *Bonds and Notes*, in the Notes to the Combined Financial Statements, for additional information related to debt.

Notes Payable to Other System Banks

In 2008, the Bank sold a total of $200.0 million of participations in its direct note receivable from a District Association to another System Bank. The $200.0 million at December 31, 2010 is included in Bonds and Notes in the Combined Balance Sheets and bears interest at an annual variable rate of one month LIBOR plus 47 basis points with maturity on December 31, 2013.

Lines of Credit

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. This facility allows AgFirst to better manage its exposure to the commercial bank and short term funding activity. AgFirst pays unused commitment fees for this credit facility. The facility has a one-year term with renewal provisions. The current period maturity date is November 17, 2011.

The Bank has securities repurchase agreement facilities with three commercial banks that range in terms from overnight to six months. Also, AgFirst has overnight Fed Funds lines of credit with two commercial banks. Both the repurchase agreements and Fed Funds lines are maintained on an uncommitted basis.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. AgFirst's and the Associations' boards of directors are required, by regulation, to adopt internal control policies that provide adequate direction to their respective institutions in establishing effective control over and accountability for operations, programs, and resources. The policies must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess an institution's assets,
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation,
- adoption of asset quality classification standards,
- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In general, System institutions address operational risk through the organizations' internal frameworks which are subject to the review of internal auditors. Exposure to operational risk is typically identified with the assistance of senior management. Internal audit plans are developed under the oversight of the respective Board Audit Committees to ensure an appropriate level of review based on a particular area's or department's level of inherent risk.

Political Risk Management

System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agricultural and rural America. The System and its borrowers may be significantly affected by federal legislation that impacts the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government.

The District addresses political risk by actively supporting the Farm Credit Council, which is a full-service, federal trade association representing the System before Congress, the Executive Branch, and others. The Council provides the mechanism for "grassroots'' involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, the District takes an active role in representing the individual interests of System institutions and their borrowers before Congress. In addition to the Farm Credit Council, each district has its own Council, which is a member of the Farm Credit Council. The district Councils represent the interests of their members on a local and state level, as well as on a federal level.

ALLOWANCE FOR LOAN LOSSES

Each District institution maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within its respective loan and finance lease portfolios as of each reported balance sheet date. The District increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan or lease is uncollectible. Any subsequent recoveries are added to the allowance. Managements' evaluations consider factors which include, among other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions.

The allowance for loan losses was $182.3 million at December 31, 2010, as compared with $195.1 million and $169.1 million at December 31, 2009 and 2008, respectively. The decrease during 2010 of $12.8 million was primarily due to $165.9 million of loan charge-offs as their uncollectability became more apparent and measurable during the year. Charge-offs were related primarily to the forestry (34.51 percent of the total), other real estate (15.87 percent) and cattle (9.86 percent) segments. The allowance at December 31, 2010 included specific reserves of $70.4 million (38.61 percent of the total) primarily related to specific credits for six borrower relationships and $111.9 million (61.39 percent) of general reserves. Impaired and certain other significant loans were reviewed individually to determine that appropriate reserves were in place at year end. All other loans were analyzed collectively and general reserves were established based on that collective analysis including the risk rating and potential for loss given default of the underlying loans. The total allowance at December 31, 2010 is comprised primarily of reserves for the forestry (24.06 percent of the total), nursery/greenhouse (8.54 percent), cattle (6.89 percent), ethanol (6.51 percent) and other real estate (6.28 percent) segments. Declining real estate values impacted charge-offs and reserves in several of these loan segments. See Note 4, *Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding increases to the allowance from provision expense.

The following table presents the activity in the allowance for loan losses for the most recent three years at December 31:

Allowance for Loan Losses Activity *(dollars in thousands)*	**Year Ended December 31, 2010**	**2009**	**2008**
Balance at beginning of year	$ 195,132	$ 169,090	$ 78,874
Charge-offs:			
Real estate mortgage	(84,319)	(52,457)	(23,736)
Production and intermediate-term	(63,796)	(30,070)	(5,232)
Agribusiness	(12,611)	(56,324)	(1,418)
Communication	(2,554)	–	–
Rural residential real estate	(2,605)	(3,296)	(170)
Lease receivables	(63)	–	–
Other (including Mission Related)	–	–	(1,429)
Total charge-offs	(165,948)	(142,147)	(31,985)
Recoveries:			
Real estate mortgage	3,398	809	180
Production and intermediate-term	10,448	3,716	801
Agribusiness	985	744	33
Energy	–	12	–
Rural residential real estate	86	11	6
Other (including Mission Related)	–	4	158
Total recoveries	14,917	5,296	1,178
Net (charge-offs) recoveries	(151,031)	(136,851)	(30,807)
Provision for (reversal of allowance for) loan losses	138,228	162,893	121,023
Balance at end of year	$ 182,329	$ 195,132	$ 169,090

The allowance for loan losses by loan type for the most recent three years at December 31 is presented in the following table:

Allowance for Loan Losses by Loan Type *(dollars in thousands)*	**December 31, 2010**	**2009**	**2008**
Real Estate Mortgage	$ 73,636	$ 66,642	$ 52,021
Production and Intermediate-Term	83,759	88,851	69,684
Agribusiness	19,735	33,148	44,472
Communication	415	1,822	369
Energy	546	479	219
Water and Waste Disposal	53	39	–
Rural Residential Real Estate	3,117	3,598	2,314
Leases	67	7	11
Other (including Mission Related)	1,001	546	–
Total	$ 182,329	$ 195,132	$ 169,090

The allowance for loan losses as a percentage of loans outstanding and as a percentage of nonaccrual loans at December 31 is shown below:

	2010	**2009**	**2008**
Allowance for loan losses to loans	0.79%	0.84%	0.73%
Allowance for loan losses to nonaccrual loans	22.93%	25.35%	30.66%

Despite the recent negative credit quality trends, the financial positions of the Bank and District Associations' borrowers have generally remained strong as farmers' net cash income has been at favorable levels. This has been due, in part, to increases in commodity prices and direct federal government payments. With borrowers' generally strong financial positions and the continued management emphasis on underwriting standards, the credit quality of the District loan portfolio has remained sound despite the recent trends. However, as discussed previously, uncertainty in the general economic environment has increased the potential for additional prospective risks in the loan portfolio. See Note 4, *Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements and the *Significant Accounting Policies* section above for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net Income

District net income totaled $551.9 million for the year ended December 31, 2010, an increase of $187.0 million over 2009. District net income totaled $364.9 million for the year ended December 31, 2009, an increase of $1.3 million over 2008. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

Change in Net Income *(dollars in thousands)*	**Year Ended December 31, 2010**	**2009**
Net income (for prior year)	$ 364,867	$ 363,520
Increase (decrease) due to:		
Total interest income	(46,090)	(309,235)
Total interest expense	159,675	428,810
Net interest income	113,585	119,575
Provision for loan losses	24,665	(41,870)
Noninterest income	15,139	(1,883)
Noninterest expense	30,400	(70,650)
Provision for income taxes	3,223	(3,825)
Total increase (decrease) in net income	187,012	1,347
Net income	$ 551,879	$ 364,867

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	**For the 12 Months Ended 12/31/10**	**12/31/09**	**12/31/08**
Return on average assets	1.66 %	1.12 %	1.17 %
Return on average shareholders' equity	13.67 %	10.79 %	10.07 %
Net interest income as a percentage of average earning assets	3.31 %	2.93 %	2.66 %
Net (charge-offs) recoveries to average loans	(0.66) %	(0.59) %	(0.14) %

Interest Income

Total interest income for the year ended December 31, 2010 was $1.435 billion, a decrease of $46.1 million, as compared to the same period of 2009. Total interest income for the year ended December 31, 2009 was $1.481 billion, a decrease of $309.2 million, as compared to the same period of 2008. The decrease in both years was primarily the result of lower earning asset yields due to the declining market interest rate environment. Also, the volume of interest earning assets decreased in 2010, with a decrease in average earning assets of $228.5 million. The average yield on interest earning assets decreased 11 basis points.

The following table illustrates the impact of volume and yield changes on interest income:

Net Change in Interest Income *(dollars in thousands)*	Year Ended December 31, 2010-2009	2009-2008
Current year increase in average earning assets	$ (228,455)	$ 1,301,337
Prior year average yield	4.62%	5.83%
Interest income variance attributed to change in volume	(10,564)	75,819
Current year average earning assets	31,799,811	32,028,266
Current year increase (decrease) in average yield	(0.11)%	(1.21)%
Interest income variance attributed to change in yield	(35,526)	(385,054)
Net change in interest income	$ (46,090)	$ (309,235)

Interest Expense

Total interest expense for the year ended December 31, 2010 was $383.9 million, a decrease of $159.7 million, as compared to the same period of 2009. Total interest expense for the year ended December 31, 2009 was $543.6 million, a decrease of $428.8 million, as compared to the same period of 2008. The decrease in both years was primarily attributed to the decrease in average rates paid on System debt obligations.

The following table illustrates the impact of volume and rate changes on interest expense:

Net Change in Interest Expense *(dollars in thousands)*	Year Ended December 31, 2010-2009	2009-2008
Current year increase in average interest-bearing liabilities	$ 137,196	$ 1,492,779
Prior year average rate	1.90%	3.60%
Interest expense variance attributed to change in volume	2,615	53,702
Current year average interest-bearing liabilities	28,659,285	28,522,089
Current year increase (decrease) in average rate	(0.56)%	(1.70)%
Interest expense variance attributed to change in rate	(162,290)	(482,512)
Net change in interest expense	$ (159,675)	$ (428,810)

Net Interest Income

Net interest income increased from 2009 to 2010 and from 2008 to 2009, as illustrated by the following table:

District Analysis of Net Interest Income
Year Ended December 31,
(dollars in thousands)

	2010 Avg. Balance	2010 Interest	2010 Avg. Yield	2009 Avg. Balance	2009 Interest	2009 Avg. Yield	2008 Avg. Balance	2008 Interest	2008 Avg. Yield
Loans	$ 22,958,497	$ 1,219,259	5.31%	$ 23,159,772	$ 1,255,616	5.42%	$ 22,234,800	$ 1,456,566	6.55%
Cash & investments	8,841,314	215,641	2.44%	8,868,494	225,374	2.54%	8,492,129	333,659	3.93%
Total earning assets	$ 31,799,811	$ 1,434,900	4.51%	$ 32,028,266	$ 1,480,990	4.62%	$ 30,726,929	$ 1,790,225	5.83%
Interest-bearing liabilities	$ 28,659,285	$ (383,876)	1.34%	$ 28,522,089	$ (543,551)	1.90%	$ 27,029,310	$ (972,361)	3.60%
Spread			3.17%			2.72%			2.23%
Impact of capital	$ 3,140,526		0.13%	$ 3,506,177		0.21%	$ 3,697,619		0.43%
Net Interest Income (NII) & NII to average earning assets		$ 1,051,024	3.30%		$ 937,439	2.93%		$ 817,864	2.66%

Net interest income for the year ended December 31, 2010 was $1.051 billion compared to $937.4 million for the same period of 2009, an increase of $113.6 million or 12.12 percent. The net interest margin was 3.30 percent and 2.93 percent in the current year and previous year, respectively, an improvement of 37 basis points. 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 during the 2010 period, 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.

Provision for Loan Losses

AgFirst and the Associations measure risks inherent in their individual portfolios on an ongoing basis and as necessary, recognize provision for loan loss expense so that appropriate reserves for loan losses are maintained. The net provision for loan losses was $138.2 million and $162.9 million for the twelve months ended December 31, 2010 and 2009, respectively. Provision expense for the twelve months ended December 31, 2010 consisted primarily of specific reserve increases for four borrower relationships, a reversal of a specific reserve for one borrower relationship, and general reserve increases for the nursery/greenhouse, non-farm income and cattle industries. The net provision expense of $138.2 million was due primarily to loans classified in the forestry (40.41 percent of the total), other real estate (19.80 percent), nursery/greenhouse (14.59 percent), and cattle (10.83 percent) industries.

As mentioned previously, declining real estate values were, in part, the reason for some of the provision expense recognized by the District. See Note 4, *Loans and Allowance for Loan Losses*, in the Combined Notes to the Financial Statements for further information.

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income (dollars in thousands)	For the Year Ended December 31, 2010	2009	2008	Increase (Decrease) 2010/2009	2009/2008
Loan fees	$ 47,754	$ 46,512	$ 38,705	$ 1,242	$ 7,807
Fees for financially related services	10,939	10,710	11,353	229	(643)
Gains (losses) from other property owned, net	(30,469)	(10,184)	(1,102)	(20,285)	(9,082)
Gains (losses) on investments, net	1,406	9,918	–	(8,512)	9,918
Net impairment losses on investments	(11,912)	(26,454)	(10,465)	14,542	(15,989)
Gains (losses) on derivatives, net	–	469	(359)	(469)	828
Gains (losses) on sale of rural home loans	2,829	2,601	2,142	228	459
Gains from sale of premises and equipment, net	976	1,706	4,613	(730)	(2,907)
Patronage refunds from other Farm Credit Institutions	3,351	5,493	4,084	(2,142)	1,409
Insurance Fund refund	34,327	–	–	34,327	–
Other noninterest income	5,609	8,900	2,583	(3,291)	6,317
Total noninterest income	$ 64,810	$ 49,671	$ 51,554	$ 15,139	$ (1,883)

For 2010 and 2009, increases in loan fees of $1.2 million and $7.8 million, respectively, was primarily due to a market environment of higher refinance and amendment activity which resulted in additional fee collections.

The majority of the decrease in fees for financially related services in 2009 was the result of decreases of $402 thousand in crop hail insurance income and $237 thousand in multi-peril insurance income.

The increase in losses from other property owned during 2010 primarily resulted from write-downs of three land holdings based on recent appraisals. The increase in losses from other property owned for 2009 resulted from operating costs (including legal and appraisal fees) of properties acquired during 2009.

Gains on investments during 2010 were the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio. Gains on investments during 2009 were from sales to achieve certain portfolio limits and liquidity parameters.

The net impairment losses on investments in 2010 and 2009 were due to the recognition of credit related other-than-temporary impairment on certain asset-backed and non-agency CMO securities in the Bank's investment portfolio. See further discussion in the *Investments and Cash and Cash Equivalents* section above.

Gains from sale of premises and equipment, net were $976 thousand, $1.7 million, and $4.6 million for 2010, 2009, and 2008, respectively. The primary reason for the 2008 increase was the $2.7 million gain recorded in 2008 on the sale of one Association's office building.

Patronage refunds from other Farm Credit institutions decreased $2.1 million in 2010 and increased $1.4 million in 2009. This decrease in 2010 and increase in 2009 resulted primarily from the amount of dividends received from Farmer Mac senior cumulative perpetual preferred stock that was purchased at the end of third quarter 2008 and redeemed in full by Farmer Mac in January 2010.

The District recorded $34.3 million of insurance premium refunds during the first quarter of 2010 from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Other noninterest income was $5.6 million for the year ended December 31, 2010, or a $3.3 million decrease compared to December 31, 2009, primarily due to a captive insurance allocated loss based on claims experience recorded in 2010, a decrease in gains incurred on investments which fund the non-qualified pension plans, and a gain from the Bank's termination of the captive mortgage insurance program recorded in 2009. Also contributing to the $6.3 million increase for 2009 were income from outside sources for services to other Farm Credit System entities and a captive insurance allocated gain based on claims experience.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense (dollars in thousands)	For the Year Ended December 31, 2010	2009	2008	Increase (Decrease) 2010/2009	2009/2008
Salaries and employee benefits	$ 248,824	$ 249,917	$ 198,657	$ (1,093)	$ 51,260
Occupancy and equipment	37,502	36,757	36,665	745	92
Insurance Fund premiums	12,418	48,243	35,337	(35,825)	12,906
Other operating expense	79,206	77,430	83,204	1,776	(5,774)
Called debt expense	38,419	36,532	26,652	1,887	9,880
Correspondent lending service expense	8,413	6,303	4,017	2,110	2,286
Other noninterest expense	278	278	278	–	–
Total noninterest expenses	$ 425,060	$ 455,460	$ 384,810	$ (30,400)	$ 70,650

Salaries and employee benefits changed over the three year period of 2008 through 2010 as a result of normal salary administration and variances in benefit costs. In addition, for the twelve months ended December 31, 2009, pension expense was $43.5 million greater compared to the same period in 2008, due primarily to a reduction in the expected total return on plan assets and an increase in the amount of actuarial losses amortized for the District plans. Pension expense for 2010 was $8.3 million less than 2009. Pension expense is determined by actuarial valuations based on certain assumptions, including expected long-term rates of return on plan assets and discount rates. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of future benefit obligations. Plan assets values increased significantly in 2009 and 2010 after decreasing significantly in 2008 due to the decline in stock values. The long-term rate of return assumption was 8.00 percent in 2008, 2009, and 2010, for the District plans. These rates are determined based on investment return forecasts and current industry norms. The discount rate used to determine the present value of obligations decreased from 6.25 percent in 2008 to 6.05 percent in 2009 and 5.50 percent in 2010. The yield curve used to determine the rate for 2010 and 2009 was changed for 2009 to reflect a more conservative level at which obligations could be settled. The pay increase assumption for 2010 and 2009, which impacts service cost, used in the projected benefit obligation determination was increased in 2009 for certain employee groups to more closely resemble actual experience over the past several years. Some of these changes in assumption may not be permanent, but reflect the District's projections based on the current financial environment.

The $35.8 million decrease in 2010 and $12.9 million increase in 2009 in the Insurance Fund premiums, respectively, resulted primarily from a change in the premium assessment methodology and the premium rate. Effective July 1, 2008, the base on which the Insurance Fund premiums are assessed was expanded from total loans to total System debt. The annual premium rate, which was 15 basis points for the first nine months of 2008, was increased to 18 basis points for the last quarter of 2008, and to 20 basis points for 2009. The Insurance Fund Board decreased the premium to 5 basis points for 2010.

Other operating expense was $79.2 million, $77.4 million, and $83.2 million for 2010, 2009, and 2008, respectively. The higher amount of other operating expense in 2008 was due primarily to a $2.9 million increase in professional fees related to technology upgrades and Systemwide initiatives.

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 $1.9 million and $9.9 million for the years ended December 31, 2010 and 2009, respectively. Call options were exercised on bonds totaling $28.087 billion in 2010 and $25.838 billion in 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.

The increases in correspondent lending servicing expense for 2010 and 2009 are due primarily to increased guarantee fees for bulk transfers to Long-Term Standby Commitments as a result of higher volume in the correspondent lending portfolio.

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

Provision for Income Taxes

Provision for income taxes decreased $3.2 million in 2010 compared to 2009. This decrease was primarily due to one Association paying a $1.5 million IRS tax settlement in 2009, another Association paying a $587 thousand tax liability in March 2009 related to its 2008 tax extension, another Association's tax provision decreased $937 thousand from 2009 to 2010, and one other Association recorded $456 thousand in April 2010 for 2005-2008 IRS refunds. See Note 12, *Income Taxes*, in the Notes to the Combined Financial Statements for further details.

CAPITAL

Capital serves to support future asset growth, investment in new products and services, and to provide protection against credit, interest rate, and other risks, and operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

The AgFirst Capitalization Plan (the "Plan") approved by the Bank's board of directors establishes guidelines to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. The Bank's capital objectives are considered adequate to support inherent risk. There were no material changes to the Plan for 2010 that have an effect on the Bank's ability to retire stock and distribute earnings.

Total District shareholders' equity at December 31, 2010 was $4.157 billion, compared to $3.627 billion and $3.122 billion at December 31, 2009 and 2008, respectively. The $529.7 million increase in 2010 was related primarily to an increase in retained earnings from net income of $551.9 million and $165.2 million in net unrealized gains on investments available-for-sale, a component of AOCI. These increases in shareholders' equity were offset by decreases from retained earnings retired of $56.7 million, cash distribution of $96.6 million, and preferred stock dividends paid of $27.4 million. The $505.3 million increase in 2009 was related primarily to net income of $364.9 million, a decrease of $239.1 million in unrealized losses on investments available for sale, a component of AOCI, and a decrease of $56.5 million in AOCI related to FASB guidance on employee benefit plans. These increases in shareholders' equity were offset by decreases from retained earnings retired of $59.3 million, cash distribution of $78.2 million, and preferred stock dividends paid of $27.4 million.

On May 17, 2001, AgFirst issued $225.0 million of Mandatorily Redeemable Cumulative Preferred Stock at a par value of $1 thousand per share. This stock is mandatorily redeemable on December 15, 2016. The stock carries a stated annual dividend rate of 8.393 percent until December 15, 2011, with dividends paid semi-annually in arrears on June 15th and December 15th. Commencing March 15, 2012, dividends are paid quarterly in arrears at a floating rate per annum equal to 3 month LIBOR plus 3.615 percent. On or after the dividend payment date in December 2011, the preferred stock will be redeemable in whole or in part at the option of AgFirst on any dividend payment date at par value of $1 thousand per share together with accrued and unpaid dividends to the redemption date. The Mandatorily Redeemable Preferred Stock is reported as a liability and the related dividends reported as interest expense. Although the Mandatorily Redeemable Preferred Stock is required to be reported as a liability under GAAP, it qualifies as capital for certain regulatory purposes. On October 14, 2003, AgFirst issued $150.0 million of Perpetual Non-Cumulative Preferred Stock at a par value of $1 thousand per share. On June 8, 2007, AgFirst issued $250.0 million of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock, Series 1. See Note 10, *Mandatorily Redeemable Preferred Stock*, and Note 11, *Protected Borrower Equity and Shareholders' Equity*, in the Notes to the Combined Financial Statements for further information concerning the preferred stock issuances.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The FCA notified AgFirst that the June 2007 issuance of $250.0 million of Perpetual Non-Cumulative Subordinated Preferred Stock (as discussed above) could be included in core surplus up to an amount not to exceed 25.00 percent of total core surplus, inclusive of the preferred stock component. Based on this regulatory guidance, applied to the Bank's core surplus ratio at December 31, 2010, all of the $250.0 million in preferred stock has been included. Also in conjunction with the issuance of the mandatorily redeemable preferred stock, FCA now requires AgFirst to maintain a minimum net collateral ratio of 104.00 percent compared to the System regulatory minimum of 103.00 percent. Unlike the permanent capital, total surplus and core surplus ratios, the net collateral ratio does not incorporate any risk-adjusted weighting of assets. The collateral ratio is calculated by dividing the Bank's collateral, as defined by FCA regulations, by total liabilities. The net collateral ratio is not applicable to the Associations.

The Bank's regulatory ratios at December 31 are shown in the following table:

	Regulatory Minimum	AgFirst Ratio as of 12/31/10	12/31/09	12/31/08
Permanent Capital Ratio	7.00%	21.22%	16.86%	17.15%
Total Surplus Ratio	7.00%	21.19%	16.83%	17.11%
Core Surplus Ratio	3.50%	13.79%	9.85%	10.43%
Net Collateral Ratio	104.00%	106.44%	105.66%	105.56%

The Bank's permanent capital, total surplus, and core surplus ratios increased at December 31, 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 at December 31, 2010, are primarily the result of the increase in capital exceeding the growth in assets on both a total and risk adjusted basis. Also, the increases 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.

The decrease in the Bank's permanent capital, total surplus, and core surplus ratios at December 31, 2009 as compared to December 31, 2008 was attributed to higher deductions for ineligible investment securities.

The following table illustrates the risk bearing capacity of the District Associations at December 31, 2010:

Association	Regulatory Permanent Capital Ratio	Regulatory Core Surplus Ratio	Regulatory Total Surplus Ratio	Allowance/ Loans
AgCarolina Financial	17.97%	14.49%	14.49%	1.35%
AgChoice	14.92%	12.28%	14.07%	0.65%
Ag Credit	18.64%	14.55%	16.56%	0.77%
AgGeorgia	13.84%	11.27%	13.61%	1.07%
AgSouth	14.93%	10.29%	14.49%	0.56%
ArborOne	16.17%	12.00%	15.78%	0.47%
Cape Fear	15.94%	15.60%	15.60%	1.11%
Carolina	15.71%	12.59%	15.05%	0.85%
Central Florida	16.28%	13.48%	15.65%	1.18%
Central Kentucky	13.23%	11.33%	11.91%	1.17%
Chattanooga	15.30%	11.14%	13.26%	1.48%
Colonial	18.12%	17.42%	17.42%	1.10%
Farm Credit of the Virginias	13.84%	12.60%	12.60%	0.64%
First South	14.19%	11.89%	12.94%	0.61%
Jackson Purchase	16.94%	14.95%	16.04%	0.89%
MidAtlantic	15.23%	14.21%	14.79%	0.76%
North Florida	12.67%	11.72%	12.30%	2.87%
Northwest Florida*	14.03%	3.06%	13.78%	2.62%
Puerto Rico	20.86%	20.52%	20.52%	1.20%
South Florida	17.20%	17.16%	17.16%	1.91%
Southwest Florida**	14.58%	2.94%	14.30%	1.94%
Southwest Georgia	18.49%	15.00%	18.13%	1.95%

* This Association did not meet the regulatory minimum core surplus ratio of 3.50 percent as of December 31, 2010. Core surplus consists of unallocated equities and certain includible allocated equities. However, in the event unallocated equities are less than 1.50 percentage points, no more than 2.00 percentage points of the minimum ratio may consist of includible allocated equities. The Association actually held 13.14 percent of includible allocated equities at December 31, 2010. The Association board of directors was required to submit a capital restoration plan to FCA. The plan included monitoring, reporting, and actions to ensure the minimum ratio is achieved and maintained. The Association was in compliance with the other required minimum capital ratios at December 31, 2010.

** This Association did not meet the regulatory minimum core surplus ratio of 3.50 percent as of December 31, 2010. As mentioned above, core surplus consists of unallocated equities and certain includible allocated equities. However, in the event unallocated equities are less than 1.50 percentage points, no more than 2.00 percentage points of the minimum ratio may consist of includible allocated equities. The Association actually held 14.30 percent of includible allocated equities at December 31, 2010. As previously mentioned, the Association merged with and into Farm Credit of South Florida, ACA, effective January 1, 2011.

AgFirst and each Association maintain an allowance for loan losses determined by its management and are capitalized to serve their unique markets. The minimum regulatory capital ratios for System banks and associations are 7.00 percent for the permanent capital ratio, 3.50 percent for the core surplus ratio, and 7.00 percent for the total surplus ratio.

See Note 11, *Protected Borrower Equity and Shareholders' Equity*, in the Notes to the Combined Financial Statements for additional information regarding regulatory capitalization requirements and restrictions.

ECONOMIC CAPITAL

As discussed previously (see *Risk Management* section above), risk is an inherent part of the District's business activities. The District's capital management framework is intended to ensure there is sufficient capital to support the underlying risks of our business activities, exceed all regulatory capital requirements, and achieve certain capital adequacy objectives. The District has implemented an economic capital measurement process, including appropriate methodologies and assumptions, to quantify the capital requirements related to our primary areas of risk. The District periodically quantifies the economic capital requirements, based on the credit risk, interest rate risk, operational risk, and market risk inherent in its operations. For a further discussion of these risks, see the *Risk Management* section above. Due to the evolving nature of the economic capital concept, the District anticipates these methodologies and assumptions will continue to be refined.

THE DISTRICTWIDE YOUNG, BEGINNING, AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The District is committed to providing sound and dependable credit to young, beginning, and small (YBS) farmers and ranchers. Because of the unique needs of these individuals, and their importance to the future growth of the Associations, the Associations have established annual marketing goals to increase market shares of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers' access to a stable source of credit. AgFirst and the District Associations recognize that YBS farmers are vitally important to the future of agriculture and are committed to continue offering programs to help educate, assist, and provide quality financial services to YBS farmers.

The FCA regulatory definitions for YBS farmers and ranchers are as follows:

Young Farmer – A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

Beginning Farmer – A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.

Small Farmer – A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

It is important to note that due to the regulatory definitions a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

The following table summarizes information regarding the combined District's loans outstanding to Young and Beginning Farmers and Ranchers as of December 31, 2010:

Young, and Beginning Farmers and Ranchers
Number/Volume of Loans Outstanding
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total loans and commitments outstanding at year-end	137,738	–%	$ 29,865,048	–%
2. Young farmers and ranchers	21,501	15.61%	$ 2,183,657	7.31%
3. Beginning farmers and ranchers	32,213	23.39%	$ 4,299,163	14.40%

The following table summarizes information regarding the combined District's loans outstanding to Small Farmers and Ranchers as of December 31, 2010:

Small Farmers and Ranchers
Number/Volume of Loans Outstanding by Loan Size
(dollars in thousands)

Number/Volume Outstanding	$0-$50,000	$50,001-$100,000	$100,001-$250,000	$250,001-and greater
1. Total number of loans and commitments outstanding at year-end	78,543	21,853	21,540	15,802
2. Total number of loans to small farmers and ranchers	52,495	13,886	12,369	6,053
3. Number of loans to small farmers and ranchers as a % of total number of loans	66.84%	63.54%	57.42%	38.31%
4. Total loan volume outstanding at year-end	$ 1,496,599	$ 1,822,318	$ 3,954,189	$ 22,591,942
5. Total loan volume to small farmers and ranchers	$ 1,003,507	$ 1,067,458	$ 1,984,316	$ 3,395,408
6. Loan volume to small farmers and ranchers as a % of total loan volume	67.05%	58.58%	50.18%	15.03%

The following table summarizes information regarding the combined District's new loans made to Young, and Beginning Farmers and Ranchers for the year ended December 31, 2010:

Young, and Beginning Farmers and Ranchers
Gross New Business During 2010, Number/Volume of Loans
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total gross new loans and commitments made during 2010	61,940	-%	$ 14,891,933	-%
2. Total loans and commitments made during 2010 to young farmers and ranchers	9,326	15.06%	$ 1,281,023	8.60%
3. Total loans and commitments made during 2010 to beginning farmers and ranchers	13,159	21.24%	$ 2,314,232	15.54%

The following table summarizes information regarding the combined District's new loans made to Small Farmers and Ranchers for the year ended December 31, 2010:

Small Farmers and Ranchers
Gross New Business by Loan Size, Number/Volume of Loans
(dollars in thousands)

Number/Volume	$0- $50,000	$50,001 - $100,000	$100,001- $250,000	$250,001- and greater
1. Total number of new loans and commitments made during 2010	24,529	11,812	13,338	12,261
2. Total number of loans made to small farmers and ranchers during 2010	17,052	6,730	6,620	3,986
3. Number of loans to small farmers and ranchers as a % of total number of loans	69.52%	56.98%	49.63%	32.51%
4. Total gross loan volume of all new loans and commitments made during 2010	$ 498,828	$ 854,192	$ 2,190,669	$ 11,348,244
5. Total gross loan volume to small farmers and ranchers	$ 334,205	$ 482,305	$ 1,061,660	$ 2,208,891
6. Loan volume to small farmers and ranchers as a % of total gross new loan volume	67.00%	56.46%	48.46%	19.46%

LEGAL PROCEEDINGS

On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from legal actions pending against the District would be immaterial in relation to the combined financial position of AgFirst and the District Associations. Refer to Note 16, *Commitments and Contingencies*, in the Notes to the Combined Financial Statements for additional information.

REGULATORY MATTERS

During 2010, the FCA entered into written supervisory agreements with two District Associations whose combined assets totaled less than $800.0 million at December 31, 2010. The written supervisory agreements require those District Associations to take corrective actions with respect to certain areas of their operations, including capital, portfolio management, and asset quality. These enforcement actions will not have a significant impact on the Bank's or District's financial condition or results of operations. While the FCA took no other enforcement actions against the Bank or other District Associations during 2010, five additional District Associations were subject to special supervision by the FCA at December 31, 2010, subjecting them to additional regulatory scrutiny. Subsequent to year-end 2010, the FCA advised that an enforcement action in the form of a written supervisory agreement is forthcoming during the first quarter of 2011 for an Association in the District currently subject to special supervision.

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

Financial Regulatory Reform

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

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

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

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

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

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

DISTRICT MERGER ACTIVITY

Please refer to Note 23, *District Merger Activity*, in the Notes to the Combined Financial Statements for information regarding merger activity in the District.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Combined Financial Statements for recently issued accounting pronouncements.

Additional Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 to the Combined Financial Statements, *Organization and Operations,* included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *Management's Discussion & Analysis of Financial Condition & Results of Operations* included in this Annual Report to shareholders.

Description of Property

The Bank and the Associations own land and buildings throughout the District. The various facilities owned or leased by the Associations are described in the individual Association annual reports. The following table sets forth certain information regarding the properties owned by the reporting entity, AgFirst Farm Credit Bank, all of which are located in Columbia, South Carolina:

Location	Description
1401 Hampton Street	Bank building and adjacent parking
1441 Hampton Street	Vacant
1443 Hampton Street	AgFirst Federal Credit Union
1447 Hampton Street	Vacant
1428 Taylor Street	AgFirst training center
1436 Taylor Street	Leased to a tenant

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 16 to the Combined Financial Statements, *Commitments and Contingencies,* included in this Annual Report to shareholders.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 11 to the Combined Financial Statements, *Protected Borrower Equity and Shareholders' Equity,* included in this Annual Report to shareholders.

Description of Liabilities

The description of liabilities and contingent liabilities to be disclosed in this section is incorporated herein by reference to Notes 2, 8, 9, 10, 13, and 16 to the Combined Financial Statements included in this Annual Report to shareholders.

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

Management's Discussion & Analysis of Financial Condition & Results of Operations, which appears in this Annual Report to shareholders and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the directors and senior officers of the Bank. Information regarding the directors and senior officers of the District Associations is disclosed in the individual Association annual reports.

The chief executive officer and all other senior officers of the Bank, together with their length of service at their present position, as well as positions held during the last five years, are as follows:

Name and Title	Time in Position	Prior Experience	Other Business Interests
F.A. Lowrey, Chief Executive Officer	13 years	CEO, Palmetto Farm Credit, ACA from April 1989 to January 1998. President and CEO of AgFirst from January 1998 to April 2010.	He serves as: member of the Board for Federal Farm Credit Banks Funding Corporation; Council Member of the National Council of Farm Cooperatives; University of South Carolina: member of the Board of Trustees for the Business Partnership Foundation and Chairman of the Board of Directors for the Education Foundation; member of the Board of Directors for Big Brothers Big Sisters of Greater Columbia; member of the Board of Directors and Chairman of Finance Committee for National 4H Council; member of the Board of Directors for Palmetto AgriBusiness Council; member of the Board of Directors for Midlands Business Leadership Group.
Leon T. Amerson, President and Chief Operating Officer	1 year	Chief Financial Officer from March 1998 to September 2006. Chief Operating Officer from September 2006 to April 2010.	He serves on the AgFirst/FCBT Plan Fiduciary Committee.
Thomas S. Welsh, Executive Vice President and Chief Administrative and Legislative Officer	13 years	Chief Marketing and Planning Officer from January 1996 until March 1998.	He served on the Advisory Board of the Farm Credit System Captive Insurance Company. Member of the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee. Mr. Welsh retired December 31, 2010.
Charl L. Butler, Senior Vice President and Chief Financial Officer	4 years	Chief Financial Officer and Secretary at The National Bank of South Carolina from 1991 until 2007.	
William L. Melton, Senior Vice President and Chief Lending Officer	7 years	Senior Executive Officer/Bank Lending from January to July 2003, prior to that Lending Services Manager.	He served as an at-large director of the National Chicken Council during 2010.
Benjamin F. Blakewood, Senior Vice President and Chief Information Officer	12 years	Director of Information Technology from 1996 to 1998 at Affinity Technology Group.	
Frederick T. Mickler, III, Senior Vice President and General Counsel	13 years	Assistant General Counsel July 1989 until April 1998.	

The total amount of compensation earned by the CEO and the senior officers as a group during the years ended December 31, 2010, 2009 and 2008, is as follows:

Name of Individual or Number in Group	Year	Annual Salary	Annual Bonus	Deferred Comp.	Perq./ Other*	Total
F. A. Lowrey	2010	$ 615,285	$ 344,621	$ 14,862	$ 22,601	$ 997,369
F. A. Lowrey	2009	$ 600,279	$ 338,619	$ 14,654	$ 21,448	$ 975,000
F. A. Lowrey	2008	$ 577,192	$ 263,584	$ 12,265	$ 21,357	$ 874,398
6 Officers	2010	$ 1,682,943	$ 905,678	$ 17,865	$ 144,854	$ 2,751,340
6 Officers	2009	$ 1,554,648	$ 556,293	$ 84,973	$ 109,211	$ 2,305,125
6 Officers	2008	$ 1,456,242	$ 440,498	$ 80,196	$ 98,651	$ 2,075,587

** Primarily comprised of company contributions to thrift plan (see Note 13 to the Combined Financial Statements – Employee Benefit Plans), group life insurance premiums and bank-provided automobile.*

In addition to a base salary, senior officers may earn additional compensation under the Bank's Corporate Bonus Plan. The plan payments are based upon the Bank's achievement of financial targets and employee's achievement of performance targets. Those covered by the plan include all employees. Bonuses are shown in the year earned. Payment of the 2010 bonus was made in the first quarter of 2011.

Senior officers may also participate in the Bank's Long Term Bonus Plan which is designed to attract, recognize, and maintain senior officers and other key employees. Participation in the plan is at the sole discretion of the CEO. Bonuses are shown in year accrued. Payments will be made when earned.

Bank compensation plans are reviewed by the Board Compensation Committee.

Additionally, senior officers as well as all employees are reimbursed for all direct travel expenses incurred when traveling on Bank business. A copy of the travel policy is available to shareholders upon written request.

Disclosure of information on the total compensation paid during 2010 to any senior officer, or to any other individual included in the aggregate, is available to shareholders upon request.

AgFirst Farm Credit Bank Board of Directors for 2010

Name	Position	Term of Office
Paul M. House	Chairman	December 31, 2011
M. Wayne Lambertson	Vice Chairman	December 31, 2013
Gary L. Alexander	Director	December 31, 2011
Jack W. Bentley Jr.	Director	December 31, 2013
James C. Carter, Jr.	Director	December 31, 2014**
Bonnie V. Hancock	Director	December 31, 2013
Dale R. Hershey	Director	December 31, 2011
Robert L. Holden, Sr.	Director	December 31, 2010
Thomas W. Kelly	Director	December 31, 2012
Lyle Ray King	Director	December 31, 2012
S. Alan Marsh	Director	December 31, 2013
James L. May	Director	December 31, 2013
Bobby E. McCollum, Jr.	Director	December 31, 2013
Eugene W. Merritt, Jr.	Director	December 31, 2010
James M. Norsworthy, III	Director	December 31, 2011
Katherine A. Pace	Director	December 31, 2011
Jimmy D. Poston	Director	December 31, 2014**
Walter L. Schmidlen, Jr.	Director	December 31, 2012
Robert G. Sexton	Director	December 31, 2011
Robert H. Spiers, Jr.	Director	December 31, 2013
William H. Voss	Director	December 31, 2014*
J. Mark Wheeler	Director	December 31, 2012

* *This director was re-elected in 2010 to a new 4-year term commencing 1/1/11.*

** *These directors were newly elected in 2010 to a 4-year term commencing 1/1/11.*

Paul M. House, Chairman of the Board, is from Nokesville, Virginia, where he grows corn, soybeans, wheat, hay and turf grass on 4,000 acres. He also operates a dairy and milks 340 cows. He serves as a director of the Farm Credit of the Virginias, ACA.

M. Wayne Lambertson, Vice Chairman of the Board, from Pocomoke City, Maryland, owns and operates with his son a 2,700-acre farm of corn, soybeans, and wheat, and a 300,000 capacity pullet operation. He is co-owner of a restaurant, Don's Seafood, and partner in a development and construction company, J.W.L. Enterprise, LLC. He currently serves on the boards of the national Farm Credit Council (the Farm Credit System's national trade organization), MidAtlantic Farm Credit, ACA, and the Delmarva Poultry Industry (DPI), a trade organization. Mr. Lambertson served on the Board Compensation Committee.

Gary L. Alexander from Westminster, South Carolina is owner and operator of Alexander Farms, Inc., a poultry production and property development business. He markets 3.2 million broilers a year through his 18-broiler house farm and develops residential properties. He currently serves on the board of directors of AgSouth Farm Credit, ACA, the national Farm Credit Council, and is a director of the S. C. Poultry Federation. Mr. Alexander served on the Board Audit Committee.

Jack W. Bentley, Jr., a dairy farmer in Tignall, Georgia, owns and operates A&J Dairy, a 270-cow dairy that includes 583 acres of pasture, crops and timberland, and an additional 500 acres of leased farmland. Mr. Bentley is a director of AgGeorgia Farm Credit, ACA, Southeast United Dairy Industry Association, and the Wilkes County Farm Bureau. He is also a member of the Wilkes County Board of Tax Assessors and is past board chair for Farm Service Agency. Mr. Bentley served on the Board Governance Committee.

James "Jimmy" C. Carter, Jr., owns and operates with his son, Southern Belle Farm, Inc., located in McDonough, Georgia. The 200-acre beef cattle and hay farm, includes fruit and vegetable crops, and agriculturally related educational activities. Mr. Carter also operates a feed, mineral, and supplement business from the farm and provides artificial insemination services and supplies for cattle. Mr. Carter is a director of AgSouth Farm Credit and serves as chairman of the Henry County Water and Sewage Authority. He is a representative on the Ocmulgee River Basin Advisory Council and serves as vice president of the Henry County Farm Bureau. He is a member of the board for the Henry County Cattleman's Association. Mr. Carter serves on the Board Audit Committee.

Bonnie V. Hancock is Executive Director of the Enterprise Risk Management Initiative at North Carolina State University (NCSU). She also lectures and teaches courses in financial management, enterprise risk management, strategy and financial statement analysis. During 2010, Ms. Hancock conducted an enterprise risk management session for an association affiliated with the Bank. Prior to joining NCSU, she worked with Progress Energy, as senior vice president of finance and information technology and later as president of Progress Fuels, a subsidiary that produces and markets gas, coal and synthetic fuels, and operates fuel terminals and ash management facilities. Ms. Hancock is a graduate of Georgetown University with a master's degree in taxation. She is also a graduate of the College of William and Mary with a bachelor's degree in business administration with an accounting major. She lives in Wake Forest, North Carolina, and is a member of the boards of Powell Industries, designer and manufacturer of electrical equipment and computer systems that monitor the flow of electricity in industrial facilities, where she serves on the compensation committee and the North Carolina Coastal Pines Girl Scout Council, where she serves as chair of the audit committee. Ms. Hancock is a board designated financial expert and serves on the Board Credit Committee.

Dale R. Hershey from Manheim, Pennsylvania is the senior partner in Hershey Brothers Dairy Farms, managing the operations' real estate and cropping enterprises. The operation includes a dairy operation which milks 300 cows, raises 250 dairy replacements, and grows 650 acres of corn, alfalfa, soybeans, barley, rye and grass hay. He serves on the board of directors of MidAtlantic Farm Credit, ACA. He is a member of Pennsylvania Farm Bureau, the Pennsylvania Holstein Association, Lancaster County Blue Ribbon Commission for Agriculture and the Penn Township Ag Advisory Committee. Mr. Hershey serves on the Board Credit Committee.

Robert L. Holden, Sr., is co-owner and operator of a dairy, a 900-acre row-crop farm, and a 200,000 broiler operation in Whigham, Georgia. He is a director of the Southwest Georgia Farm Credit, ACA, Georgia Milk Producers, Grady County Farm Bureau, American Dairy Association of Georgia, and First United Ethanol, LLC. Mr. Holden served on the Board Governance Committee.

Thomas W. Kelly from Tyrone, Pennsylvania, is owner and manager of a livestock and crop farm, raising dairy heifers and growing corn and soybeans. Along with his son, he handles land management for Spring Lane Hunt Club. He currently is an elected delegate to the Penn State Agricultural Council and Vice President of Mid-Atlantic Master Farmer Association and is a former director of Holstein Association, USA. He is a member of AgChoice Farm Credit, ACA. Mr. Kelly served as Chairman of the Board Governance Committee.

Lyle Ray King of Ash, North Carolina, owns and operates a farm where he grows timber, corn, soybeans and wheat. He currently serves on the boards of Cape Fear Farm Credit, ACA, Atlantic Telephone Membership Cooperative, and Landbank Resource Management, a real estate company. Mr. King serves on the Board Credit Committee.

S. Alan Marsh, a third-generation farmer, is owner and operator of Marsh Farms in Madison, Alabama. His operation consists of 3,000 acres of row crops, including cotton, soybeans, wheat and corn. Mr. Marsh is a director of First South Farm Credit, ACA and Limestone County Farmers Federation, and is president and stockholder of South Limestone Co-op Gin, an association borrower. He is also a delegate on the national Cotton Council, a member of the Alabama Cattlemen's Association and an advisory board member for Staplecotn, a cotton cooperative association. Mr. Marsh served on the Board Governance Committee.

James L. May is owner and operator of Mayhaven Farm in Waynesburg, Kentucky, where he owns 330 acres and leases another 700 acres, where he has beef heifer back grounding program, utilizing rotational grazing for 500 head of cattle. Mr. May's operation also includes 150 acres of alfalfa hay, 500 acres of corn and soybeans, and 100 acres of wheat. He also operates an on farm seed business offering many types of farm seeds. He currently serves as a member of the Central Kentucky Ag Credit board, Lincoln County Extension Council, and the Lincoln County Farm Bureau Board. Mr. May served as chairman of the Board Credit Committee.

Bobby E. McCollum, Jr., is a poultry operator in Polkton, North Carolina. His operation includes eight broiler houses that produce 750,000 heavy broilers per year. Mr. McCollum also has a 100-head brood cow/calf commercial herd, and grows 100 acres of timber as well as hay, soybeans, wheat and corn. He is a director of Anson County Farm Bureau, and a member of Anson County Cattlemen's Association and the North Carolina Farm Bureau, serving on their Poultry Advisory Committee. He is a member of Carolina Farm Credit, ACA. Mr. McCollum serves on the Board Audit Committee.

Eugene W. Merritt, Jr., from Easley, South Carolina, is co-owner of an ornamental tree farm and is a landscape contractor. He also operates a 400-acre timber and grass farm. He serves on the boards of AgSouth Farm Credit, ACA; People Bancorp, a commercial bank holding company; Peoples National Bank, a commercial bank; and Jackson Companies, a recreational company. Mr. Merritt served as chairman of the Board Compensation Committee and is a member of the AgFirst/FCBT Plan Fiduciary Committee.

James M. Norsworthy, III, from Jackson, Louisiana runs 100 Cedars Cattle Farm, a 250-head cow-calf operation. He also has a commercial hay operation with 125 acres in Alicia Bermuda hay and 150 acres in Bahia Grass hay and manages a 500 acre pine and hardwood timber operation. He is a member of the board of directors of First South Farm Credit, ACA, serves on the board of Feliciana Farm Bureau and is a past president of that organization. He is a member of East Feliciana Cattlemen's Association, American Angus Association and the Feliciana Forestry Association. Mr. Norsworthy served as a former mayor of the town of Jackson, Louisiana. Mr. Norsworthy serves on the Board Audit Committee.

Katherine A. Pace from Orlando, Florida, is a certified public accountant. Prior to forming her company, Family Business Consulting, LLC, she was a tax partner with KPMG, LLP, an audit, tax and advisory service firm, from 1985-2005. While at KPMG, her practice included a variety of cooperative and agribusiness clients as well as participation in trade associations such as the National Society of Accountants for Cooperatives. Ms. Pace obtained her B.S. degree in accounting from Furman University. She is a member of the American Institute of Certified Public Accountants, the Florida Institute of Certified Public Accountants and current and past member and director of numerous trade and charitable organizations. Ms. Pace serves as Chairman of and is the board designated financial expert on the Board Audit Committee.

Jimmy D. Poston from Johnsonville, South Carolina, owns and operates Triple P Farms together with his brother. His operation consists of 2,500 acres of corn, peanuts, soybeans, tobacco, turf grass, strawberries and timber. Mr. Poston is a director of ArborOne Farm Credit, chairman of the Florence County Farm Service Agency Committee, a member of the Florence County Soil and Water Conservation District and a member of the SC Corn Growers Association and the SC Soybean Growers Association. During 2010 Mr. Poston sold tobacco to an association borrower who is also a member of the AgFirst Nominating Committee. This sale was reported and approved by ArborOne as an arms-length transaction. Mr. Poston serves on the Board Governance Committee.

Walter L. Schmidlen, Jr., from Elkins, West Virginia, is a past dairy farmer and now continues his cow-calf operation along with growing hay and corn on a 700 acre farm with lease/rented land. He is owner/operator of a farm equipment business. He presently serves on the board of Farm Credit of the Virginias, ACA, and was a former director of Southern States Cooperative and Sire Power. Mr. Schmidlen serves on the Board Governance Committee.

Robert G. Sexton is from Vero Beach, Florida. He is President of Oslo Citrus Growers Association and co-owner of Lost Legend, LLC, and owner of Orchid Island Juice Company. He serves as a director of Farm Credit of South Florida, ACA, (now Farm Credit of Florida, ACA); Oslo Citrus Growers Association; Lost Legend, LLC; Florida Citrus Packers; Indian River Citrus League; Highland Exchange Service Co-op, a packinghouse supply cooperative; McArthur Management Company, a management company for a large dairy, cattle and citrus agribusiness; and an association borrower; Sexton Grove Holdings, a family citrus company; Sexton Properties, Oslo Packing Company, Patio Restaurant and Sexton, Inc., family commercial real estate companies; and Dancing Pigs, LLC, which owns Red, Hot and Blue BBQ restaurants. In addition, he is a member of the Indian River Farm Bureau. He obtained both his B.S. degree in business administration and his MBA finance from the University of Florida. Mr. Sexton currently serves on the Board Compensation Committee. He is a board designated financial expert. Mr. Sexton is also the Board appointed member of the AgFirst/ FCBT Plan Sponsor Committee.

Robert H. Spiers, Jr., is a full-time farmer, with a tobacco, corn, wheat, and soybean operation on 1,100 acres in Dinwiddie County, Virginia. Mr. Spiers sells tobacco at a warehouse operated by an association borrower. He currently serves on the boards of Colonial Farm Credit, ACA, Tobacco Associates, Inc. and Dinwiddie County Farm Bureau. He is also director of the Old Hickory Hunt Club and a director on the Virginia Flue-cured Tobacco Board. He has been active on a number of Virginia Farm Bureau advisory committees. Mr. Spiers served as Chairman of the Board Compensation Committee. He is Chairman of the AgFirst/FCBT Plan Sponsor Committee.

William H. Voss is from McComb, Mississippi. He has commercial cattle, hay and timber operations in Southwest Mississippi and is involved in land and commercial property management. His career includes production agriculture, agribusiness and real estate. He obtained his B.S. degree from the University of Southern Mississippi, and currently serves on the board of directors of First South Farm Credit, ACA, and the national Farm Credit Council. He is a former agricultural commodities and securities broker and has served as Chairman of the Mississippi Real Estate Commission and Chairman of the Pike County Farm Service Committee. Mr. Voss serves on the Board Compensation Committee and is a member of the AgFirst/FCBT Plan Sponsor Committee.

J. Mark Wheeler from Bradenton, Florida is chief financial officer of Wheeler Farms, Inc., which grows citrus in several counties in Florida. He serves on the boards of Farm Credit of Southwest Florida, ACA (now Farm Credit of Florida, ACA), Florida Citrus Mutual, an industry trade association, and Wheeler Brothers, Inc., a family-held citrus contract harvesting corporation. Mr. Wheeler is president of Boston Mining Company, a citrus, real estate and cash investment organization. Mr. Wheeler is a board member of Hardee Livestock Market (HLM), a wholly-owned subsidiary of Wheeler Farms, Inc., a cattle auction company that conducts business with several association borrowers. Wheeler Farms, Inc. also brokered citrus for an association borrower. Mr. Wheeler is a board designated financial expert, serves on the Board Audit Committee and is a member of the AgFirst/FCBT Plan Sponsor Committee.

Committees

The board has established an audit committee, compensation committee, credit committee and governance committee. All members of the board, other than the chairman, serve on a committee. The chairman of the board serves as an ex officio member of all board committees, and the vice chairman serves as a member of the board compensation committee. The Board has four designated financial experts two of which serve on the audit committee. The responsibilities for each committee are set forth in its respective board approved charter.

Compensation of Directors

Directors were compensated in 2010 in cash at the rate of $51,948 per year, payable at $4,329 per month. This is compensation for attendance at board meetings, board committee meetings, certain other meetings pre-approved by the board, and other duties as assigned. FCA regulations also allow additional compensation to be paid to a director in exceptional circumstances where extraordinary time and effort are involved. In this regard, beginning with the third quarter of 2010, the Chairman of the Board and the Chair of the Board Audit Committee were paid an additional $1,250 per quarter for their service. Total cash compensation paid to all directors as a group during 2010 was $1,043,960. Directors received no non-cash compensation during 2010. Additional information for each director who served during 2010 is provided below.

	Number of Days Served			
Name of Director	Board Meetings	Other Official Activities*	Farm Credit Council Bd. Activities	Total Comp. Paid During 2010
Gary L. Alexander	26.00	11.25	7.75	$ 51,948
Jack W. Bentley, Jr.	26.00	12.25	7.75	51,948
Bonnie V. Hancock	26.00	12.50	7.75	51,948
Dale R. Hershey	26.00	14.50	7.75	51,948
Robert L. Holden, Sr.	23.00	13.25	7.75	51,948
Paul M. House	23.00	13.25	7.75	54,448
Thomas W. Kelly	26.00	13.25	7.75	51,948
Lyle Ray King	25.00	13.25	5.50	51,948
M. Wayne Lambertson	26.00	10.50	7.75	51,948
S. Alan Marsh	26.00	12.00	7.75	51,948
James L. May	23.00	13.00	7.75	51,948
Bobby E. McCollum, Jr.	25.50	13.75	7.75	51,948
Eugene W. Merritt, Jr.	24.50	12.25**	7.75	51,948
James M. Norsworthy, III	26.00	17.75	7.75	51,948
Katherine A. Pace	26.00	13.75	7.75	54,448
Walter L. Schmidlen, Jr.	26.00	13.00	7.75	51,948
Robert G. Sexton	25.50	13.50***	7.75	51,948
Robert H. Spiers, Jr.	26.00	13.75	7.75	51,948
William H. Voss	26.00	13.50	7.75	51,948
J. Mark Wheeler	25.50	11.75	7.75	51,948
Total				$1,043,960

* *Other official activities include board committee meetings and board training.*
** *Does not include 6 days served on AgFirst/FCBT Plan Fiduciary Committee.*
*** *Does not include 4.4 days served on AgFirst and AgFirst/FCBT Plan Sponsor Committees.*

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $218,331 for 2010, $236,458 for 2009, and $259,345 for 2008.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section, are incorporated herein by reference to Note 14 to the Combined Financial Statements, *Related Party Transactions*, included in this Annual Report to shareholders. There have been no transactions between the Bank and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditor

There were no changes in or material disagreements with our independent auditor on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees expensed by the Bank for services rendered by its independent auditor for the year ended December 31, 2010 were as follows:

	2010
Independent Auditor	
PricewaterhouseCoopers LLP	
Audit services	$ 386,876
Non-audit services	192,382
Total	$ 579,258

Audit fees were for the annual audits of financial statements.

Non-audit fees were for agreed upon procedures for Financial Institution Shared Assessments Program, Farmer Mac minimum servicing standards attestation, agreed upon procedures for Board of Directors elections, and accounting guidance.

All non-audit service engagements of $50,000 or more for the Bank require pre-approval by the Audit Committee.

Combined Financial Statements

The Combined Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP, dated March 14, 2011, and the Report of Management, which appear in this Annual Report to shareholders are incorporated herein by reference.

Borrower Information Regulations

Farm Credit Administration (FCA) regulations require that borrower information be held in strict confidence by Farm Credit institutions, their directors, officers, and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires Farm Credit institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the annual report to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Shareholder Investment

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, Financial Reporting Manager, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of each Quarterly Report within 40 days after the end of each fiscal quarter, except that no report is prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

The Audit Committee of the Bank's Board of Directors (the Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of AgFirst Farm Credit Bank (the Bank) and in the opinion of the Board of Directors, each is free of any relationship with the Bank or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Bank and District Associations combined independent auditor for 2010, is responsible for expressing an opinion on the conformity of the Bank and District Associations combined audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 *(Independence Discussions with Audit Committees)*, and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services to the Bank is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Bank and District Associations combined Annual Report for 2010. The foregoing report is provided by the following independent directors, who constitute the Committee:

Katherine A. Pace
Chairman of the Audit Committee

Members of Audit Committee

James C. Carter, Jr.
Bobby E. McCollum, Jr.
James M. Norsworthy, III
J. Mark Wheeler

March 14, 2011

Report of Independent Auditors

pwc

Report of Independent Auditors

To the Board of Directors and Members
of AgFirst Farm Credit Bank and District Associations

In our opinion, the accompanying combined balance sheets and the related combined statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of AgFirst Farm Credit Bank (the Bank) and District Associations (together, the District) at December 31, 2010, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 14, 2011

PricewaterhouseCoopers LLP, 10 Tenth Street, Suite 1400, Atlanta, GA 30309-3851
T: (678) 419 1000, F: (678) 419 1239, www.pwc.com/us

Combined Balance Sheets

(dollars in thousands)	As of December 31, 2010	2009	2008
Assets			
Cash and cash equivalents	**$ 1,463,700**	$ 981,041	$ 316,010
Investment securities:			
Available for sale (amortized cost of $6,981,952 $7,008,151 and $6,648,869 respectively)	**7,025,290**	6,886,270	6,291,327
Held to maturity (fair value of $1,298,088 $1,585,825 and $1,907,489 respectively)	**1,234,262**	1,555,960	1,875,699
Total investment securities	**8,259,552**	8,442,230	8,167,026
Loans	**23,032,893**	23,208,189	23,077,736
Less: allowance for loan losses	**182,329**	195,132	169,090
Net loans	**22,850,564**	23,013,057	22,908,646
Loans held for sale	**11,340**	4,974	1,831
Other investments	**305,959**	367,461	410,249
Accrued interest receivable	**195,966**	206,470	235,080
Investments in other Farm Credit System institutions	**11,479**	22,074	19,822
Premises and equipment, net	**125,695**	126,850	126,850
Other property owned	**146,416**	73,354	14,228
Deferred tax assets, net	**—**	1	—
Other assets	**179,336**	167,985	212,688
Total assets	**$ 33,550,007**	$ 33,405,497	$ 32,412,430
Liabilities			
Bonds and notes	**$ 28,525,569**	$ 28,894,013	$ 28,253,023
Mandatorily redeemable preferred stock	**225,000**	225,000	225,000
Accrued interest and dividend payable	**57,943**	83,164	154,555
Dividends and patronage refunds payable	**98,694**	79,622	103,187
Pension and other postretirement benefits liability	**336,741**	324,734	374,355
Advanced conditional payments	**6,842**	7,962	21,177
Deferred tax liabilities, net	**—**	—	7
Other liabilities	**142,538**	163,975	159,400
Total liabilities	**29,393,327**	29,778,470	29,290,704
Commitments and contingencies (Note 16)			
Shareholders' Equity			
Perpetual preferred stock	**400,000**	400,000	400,000
Protected borrower equity	**3,641**	4,205	4,670
Capital stock and participation certificates	**150,031**	138,504	129,529
Retained earnings			
Allocated	**1,318,996**	1,199,441	1,126,994
Unallocated	**2,575,592**	2,323,523	2,191,324
Accumulated other comprehensive income (loss)	**(291,580)**	(438,646)	(730,791)
Total shareholders' equity	**4,156,680**	3,627,027	3,121,726
Total liabilities and equity	**$ 33,550,007**	$ 33,405,497	$ 32,412,430

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

Combined Statements of Income

(dollars in thousands)	For the year ended December 31, 2010	2009	2008
Interest Income			
Investment securities	**$ 200,156**	$ 206,339	$ 311,787
Loans	**1,219,259**	1,255,616	1,456,566
Other	**15,485**	19,035	21,872
Total interest income	**1,434,900**	1,480,990	1,790,225
Interest Expense	**383,876**	543,551	972,361
Net interest income	**1,051,024**	937,439	817,864
Provision for (reversal of allowance for) loan losses	**138,228**	162,893	121,023
Net interest income after provision for (reversal of) loan losses	**912,796**	774,546	696,841
Noninterest Income			
Loan fees	**47,754**	46,512	38,705
Fees for financially related services	**10,939**	10,710	11,353
Gains (losses) from other property owned, net	**(30,469)**	(10,184)	(1,102)
Gains (losses) on investments, net (Note 3)	**1,406**	9,918	—
Total other-than-temporary impairment losses on investments (Note 3)	**(9,250)**	(61,001)	(10,465)
Portion of loss recognized in other comprehensive income (Note 3)	**(2,662)**	34,547	—
Net other-than-temporary impairment losses on investments included in earnings	**(11,912)**	(26,454)	(10,465)
Gains (losses) on derivatives, net	**—**	469	(359)
Gain (loss) on sale of rural home loans	**2,829**	2,601	2,142
Gains from sale of premises and equipment, net	**976**	1,706	4,613
Patronage refunds from other Farm Credit institutions	**3,351**	5,493	4,084
Insurance Fund refund	**34,327**	—	—
Other noninterest income	**5,609**	8,900	2,583
Total noninterest income	**64,810**	49,671	51,554
Noninterest Expenses			
Salaries and employee benefits	**248,824**	249,917	198,657
Occupancy and equipment	**37,502**	36,757	36,665
Insurance Fund premiums	**12,418**	48,243	35,337
Other operating expenses	**79,206**	77,430	83,204
Called debt expense	**38,419**	36,532	26,652
Correspondent lending servicing expense	**8,413**	6,303	4,017
Other noninterest expense	**278**	278	278
Total noninterest expenses	**425,060**	455,460	384,810
Income before income taxes	**552,546**	368,757	363,585
Provision (benefit) for income taxes	**667**	3,890	65
Net income	**$ 551,879**	$ 364,867	$ 363,520

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

Combined Statements of Changes in Shareholders' Equity

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2007	$ 400,000	$ 5,369	$ 127,147	$ 1,068,756	$ 2,118,390	$ (153,588)	$ 3,566,074
Comprehensive income							
Net income					363,520		363,520
Unrealized gains (losses) on investments available for sale						(319,744)	(319,744)
Employee benefit plans adjustments (Note 13)					(5,013)	(257,459)	(262,472)
Total comprehensive loss							(218,696)
Protected borrower equity retired		(699)					(699)
Capital stock/participation certificates issued (retired), net			1,180				1,180
Stock dividends declared/paid			1,202		(1,202)		—
Perpetual preferred stock dividends paid					(27,413)		(27,413)
Patronage distribution							
Cash					(101,203)		(101,203)
Qualified allocated surplus				20,734	(20,734)		—
Nonqualified allocated surplus				67,605	(67,605)		—
Nonqualified retained surplus				65,449	(65,449)		—
Retained earnings retired				(94,813)			(94,813)
Patronage distribution adjustment				(737)	(1,967)		(2,704)
Balance at December 31, 2008	$ 400,000	$ 4,670	$ 129,529	$ 1,126,994	$ 2,191,324	$ (730,791)	$ 3,121,726
Cumulative-effect adjustment for investment impairment accounting change (Note 13)					3,474	(3,474)	—
Comprehensive income							
Net income					364,867		364,867
Unrealized gains (losses) on investments available for sale							
Other-than-temporarily impaired (Note 3)						(31,909)	
Not other-than-temporarily impaired (Note 3)						271,043	
Total unrealized gains (losses) on investments available for sale							239,134
Employee benefit plans adjustments (Note 13)						56,485	56,485
Total comprehensive loss							660,486
Protected borrower equity retired		(465)					(465)
Capital stock/participation certificates issued (retired), net			7,807				7,807
Stock dividends declared/paid			1,168		(1,168)		—
Perpetual preferred stock dividends paid					(27,413)		(27,413)
Patronage distribution							
Cash					(78,191)		(78,191)
Qualified allocated surplus				20,779	(20,779)		—
Nonqualified allocated surplus				45,462	(45,462)		—
Nonqualified retained surplus				62,269	(62,269)		—
Retained earnings retired				(59,329)			(59,329)
Patronage distribution adjustment				3,266	(860)		2,406
Balance at December 31, 2009	$ 400,000	$ 4,205	$ 138,504	$ 1,199,441	$ 2,323,523	$ (438,646)	$ 3,627,027
Comprehensive income							
Net income					**551,879**		**551,879**
Unrealized gains (losses) on investments available for sale							
Other-than-temporarily impaired (Note 3)						**14,460**	
Not other-than-temporarily impaired (Note 3)						**150,759**	
Total unrealized gains (losses) on investments available for sale							**165,219**
Change in fair value of derivative instruments - when issued securities						**(8,751)**	**(8,751)**
Employee benefit plans adjustments (Note 13)						**(9,402)**	**(9,402)**
Total comprehensive income							**698,945**
Protected borrower equity retired		**(564)**					**(564)**
Capital stock/participation certificates issued (retired), net			**10,608**				**10,608**
Dividends declared/paid			**919**		**(1,203)**		**(284)**
Perpetual preferred stock dividends paid					**(27,413)**		**(27,413)**
Patronage distribution							
Cash					**(96,622)**		**(96,622)**
Qualified allocated surplus				**24,726**	**(24,726)**		**—**
Nonqualified allocated surplus				**51,457**	**(51,457)**		**—**
Nonqualified retained surplus				**101,245**	**(101,245)**		**—**
Retained earnings retired				**(56,654)**			**(56,654)**
Patronage distribution adjustment				**(1,219)**	**2,856**		**1,637**
Balance at December 31, 2010	**$ 400,000**	**$ 3,641**	**$ 150,031**	**$ 1,318,996**	**$ 2,575,592**	**$ (291,580)**	**$ 4,156,680**

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

Combined Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2010	2009	2008
Cash flows from operating activities:			
Net income	**$ 551,879**	$ 364,867	$ 363,520
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on premises and equipment	**18,262**	18,665	19,091
Amortization of net deferred loan origination (fees) costs	**(10,253)**	(11,048)	(9,638)
Premium amortization (discount accretion) on investment securities	**23,889**	38,605	(13,386)
(Premium amortization) discount accretion on bonds and notes	**(4,670)**	(4,631)	7,820
Provision for (reversal of allowance for) loan losses	**138,228**	162,893	121,023
(Gains) losses on other property owned, net	**30,469**	10,184	1,102
(Gains) losses from sale of premises and equipment, net	**(976)**	(1,706)	(4,613)
Net impairment losses on investments	**11,912**	26,454	10,465
(Gains) losses on investments, net	**(1,406)**	(9,918)	—
(Gains) losses on derivatives, net	**—**	(469)	359
(Gains) losses on sales of rural home loans, net	**(2,829)**	(2,601)	(2,142)
Net change in loans held for sale	**30,052**	(43,609)	(22,181)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**10,504**	28,610	17,758
(Increase) decrease in deferred tax assets, net	**1**	(8)	12
(Increase) decrease in other assets	**(19,147)**	(10,238)	(8,255)
Increase (decrease) in accrued interest and dividends payable	**(25,221)**	(71,391)	(25,023)
Increase (decrease) in pension and other postretirement benefits liability	**12,007**	(49,621)	245,940
Increase (decrease) in other liabilities	**(30,610)**	38,177	(251,843)
Total adjustments	**180,212**	118,348	86,489
Net cash provided by (used in) operating activities	**732,091**	483,215	450,009
Cash flows from investing activities:			
Investment securities purchased	**(2,073,150)**	(2,656,732)	(3,149,180)
Investment securities sold or matured	**2,362,416**	2,535,083	1,704,260
Net (increase) decrease in loans	**(154,601)**	(240,156)	(2,356,801)
(Increase) decrease in investments in other Farm Credit System institutions	**10,595**	(2,252)	(11,448)
Purchases of other investments	**(4,359)**	(54,065)	(29,666)
Proceeds from payments received on other investments	**81,346**	77,818	72,101
Purchase of premises and equipment, net	**(17,449)**	(19,554)	(24,997)
Proceeds from sale of premises and equipment, net	**1,318**	2,595	6,681
Proceeds from sale of other property owned	**51,999**	30,110	3,762
Net cash provided by (used in) investing activities	**258,115**	(327,153)	(3,785,288)
Cash flows from financing activities:			
Bonds and notes issued	**56,271,307**	108,805,294	111,749,964
Bonds and notes retired	**(56,627,514)**	(108,104,360)	(108,446,508)
Net increase (decrease) in advanced conditional payments	**(1,120)**	(13,215)	(10,397)
Protected borrower equity retired	**(564)**	(465)	(699)
Capital stock and participation certificates issued/retired, net	**10,608**	7,807	1,180
Patronage refunds and dividends paid	**(76,197)**	(99,350)	(132,866)
Dividends paid on perpetual preferred stock	**(27,413)**	(27,413)	(27,413)
Retained earnings retired	**(56,654)**	(59,329)	(94,813)
Net cash provided by (used in) financing activities	**(507,547)**	508,969	3,038,448
Net increase (decrease) in cash and cash equivalents	**482,659**	665,031	(296,831)
Cash and cash equivalents, beginning of period	**981,041**	316,010	612,841
Cash and cash equivalents, end of period	**$ 1,463,700**	$ 981,041	$ 316,010
Supplemental schedule of non-cash investing and financing activities:			
Financed sales of other property owned	**$ 6,442**	$ 39,636	$ 5,428
Loans transferred to other property owned	**161,972**	139,056	16,016
Investments transferred to loans (Note 2)	**—**	91,353	—
Loans transferred to investments (Note 3)	**—**	18,900	—
Change in unrealized gains (losses) on investments and derivative instruments, net	**165,219**	239,134	(319,744)
Employee benefit plans adjustments (Note 13)	**9,402**	(56,485)	262,472
Change in fair value of derivative instruments	**8,781**	—	—
Non-cash changes related to hedging activities:			
Increase (decrease) in bonds and notes	**$ (7,567)**	$ (55,313)	$ 94,499
Decrease (increase) in other assets	**7,796**	54,941	(91,795)
Increase (decrease) in other liabilities	**(229)**	(240)	(2,091)
Supplemental information:			
Interest paid	**$ 413,767**	$ 619,573	$ 989,564
Taxes paid, net	**1,032**	3,803	556

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

Notes to the Combined Financial Statements

Note 1 — Organization and Operations

A. **Organization:** AgFirst Farm Credit Bank (the Bank or AgFirst) is one of the banks of the Farm Credit System (the System), a nationwide system of cooperatively owned banks and associations and related service organizations. The System was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act).

The nation is currently served by four Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities. AgFirst is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of the states of Ohio, Tennessee, Kentucky and Louisiana.

Each FCB and the ACB serves one or more Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that originate both long-term and short- and intermediate-term loans. PCAs, FLCAs, and ACAs are collectively referred to as associations. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The District Associations jointly own all of AgFirst's voting stock. As of December 31, 2010, the District consisted of the Bank and twenty-two District Associations. All twenty-two were structured as ACA holding companies, with FLCA and PCA subsidiaries. Effective January 1, 2011, Farm Credit of North Florida, ACA, and Farm Credit of Southwest Florida, ACA, merged with and into Farm Credit of South Florida, ACA, which then changed its name to Farm Credit of Florida, ACA, reducing the number of Associations in the District to twenty.

Each FCB and the ACB are responsible for supervising the activities of the Associations within their districts. The FCBs and/or Associations make loans to or for the benefit of eligible borrowers/shareholders for qualified agricultural and rural purposes. District Associations borrow the majority of their funds from their related bank. The FCBs and the ACB obtain a substantial majority of funds for their lending operations through the sale of consolidated Systemwide bonds and notes to the public, but also obtain a portion of their funds from internally generated earnings, from the issuance of common and preferred stock and, to a lesser extent, from the issuance of subordinated debt.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used: (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Associations, into the Insurance Fund, based on its annual average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions.

The basis for assessing premiums was changed, beginning with the second half of 2008, to reflect each bank's pro rata share of outstanding Insured Debt. Prior to that, premiums had been based primarily on loans outstanding. Premiums of up to 20 basis points on adjusted Insured Debt obligations can be assessed along with a risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments. Premiums on adjusted Insured Debt obligations for the third and fourth quarters of 2008 were 15 and 18 basis points, respectively. For 2009 and 2010, the premium was 20 and 5 basis points, respectively. Effective January 1, 2011, the premium was increased to 6 basis points.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services which can be offered by AgFirst and the District Associations.

AgFirst and/or the District Associations are authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents, and farm-related businesses. AgFirst may also lend to other financial institutions qualified to engage in lending to eligible borrowers. The District Associations may also serve as an intermediary in offering credit life insurance and multi-peril crop insurance, and in providing additional services to borrowers.

The District Associations borrow from AgFirst and in turn may originate and service both long-term real estate mortgage and short- and intermediate-term loans to their members. As noted above, as of January 1, 2006, all Associations have reorganized into parent-subsidiary structures and operate their long-term mortgage activities through FLCA subsidiaries and their short- and intermediate-term lending activities through PCA subsidiaries or the ACA.

AgFirst, in conjunction with other System banks, jointly owns service organizations, which were created to provide a variety of services for the System:

- *Federal Farm Credit Banks Funding Corporation (Funding Corporation)* — provides for the issuance, marketing and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- *FCS Building Association* — leases premises and equipment to the FCA, as required by the Farm Credit Act.
- *Farm Credit System Association Captive Insurance Company* — being a reciprocal insurer, provides insurance services to its member organizations.

These investments are accounted for using the cost method. In addition, the *Farm Credit Council* acts as a full-service federated trade association which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of combined financial statements in conformity with GAAP requires the managements of AgFirst and District Associations to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results can differ from these estimates.

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation. Also, during the second quarter of 2009, the Bank reclassified from investments to loans certain financial instruments which totaled $91.4 million. 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 Combined Statements of Cash Flows and did not have a significant impact on the Combined Financial Statements or the regulatory ratios.

The accompanying combined financial statements include the accounts of AgFirst (including the Finance Corporation) and the District Associations, and reflect the investments in and allocated earnings of the service organizations in which AgFirst and Associations have partial ownership interests. All significant transactions and balances between AgFirst and District Associations have been eliminated in combination.

A. **Cash and Cash Equivalents:** Cash and Cash Equivalents include cash on hand and short-term investments with original maturities of three months or less.

B. **Investment Securities:** The District, as permitted under the FCA regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds, managing interest rate risk and, in the case of certain Mission-Related Investments, to stimulate economic growth and development in rural areas. Investments are classified based on management's intention on the date of purchase and are generally recorded on the Combined Balance Sheet as securities on the trade date. Investment securities which management has the intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Investment securities classified as available-for sale (AFS) are carried at fair value with net unrealized gains and losses included in other comprehensive income (OCI) in Shareholders' Equity.

The District reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other than temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If the District intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the District does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Bank would record an additional other-than-temporary impairment and adjust the yield of the security prospectively. The amount of total other-than-temporary impairment for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporary impairment and its fair value.

Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

C. **Loans and Allowance for Loan Losses**: Long-term real estate mortgage loans generally have original maturities up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount is deferred as part of the carrying amount of the loan and the net difference is amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

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 and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or charged against the allowance for loan losses (if accrued in prior years).

When loans are in nonaccrual status, if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments received in cash is generally recognized as interest income. Otherwise, loan payments are applied against the recorded investment in the loan asset. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified "doubtful" or "loss."

Loans are charged-off at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Bank or District Associations makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the District grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

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

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

The credit risk rating methodology is a key component of the District's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the District has been identified. 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 District considers the following factors, among others, when determining the allowance for loan losses:

- Credit risk classifications,
- Collateral values,
- Risk concentrations,
- Weather related conditions,
- Current production and economic conditions, and
- Prior loan loss experience.

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.

D. **Other Investments:** Other Investments include Tobacco Buyout Successor-in-Interest Contracts (SIIC) which qualify as Mission-Related Investments under FCA regulations. Under the SIIC, the Tobacco quota holders and producers may sell their rights to receive SIIC contract payments to a third party. The successor purchases the entire contract and all related rights and obligations associated with the contract. These investments in SIIC are purchased at a discount. Contract payments are made by the United States Department of Agriculture (USDA) in equal annual payments. Interest income is recognized from the accretion of discounts using the effective interest method.

E. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments related to other property owned are included in Net Gains (Losses) from Other Property Owned in the Combined Statement of Income.

F. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is generally provided on the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are charged to operating expense and improvements that extend the useful life of the asset are capitalized.

G. **Debt Issuance Cost:** Direct expenses incurred in issuing debt and mandatorily redeemable preferred stock are deferred and amortized using the straight-line method (which approximates the interest method) over the term of the related indebtedness or term of the mandatorily redeemable preferred stock.

H. **Advanced Conditional Payments:** The District Associations are authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, those advanced conditional payments (ACPs) are netted against the borrower's related loan balance. ACPs which are held by the District but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as other liabilities in the combined balance sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. The outstanding gross balances of advance conditional payments netted against loans at December 31, 2010, 2009 and 2008 were $161.7 million, $135.7 million, and $160.7 million, respectively. The outstanding gross balances of advance conditional payments classified as other liabilities at December 31, 2010, 2009 and 2008 were $6.8 million, $8.0 million, and $31.0 million, respectively.

I. **Employee Benefit Plans:** The employees of the District may participate in one of four defined benefit retirement plans. The AgFirst Farm Credit Retirement Plan (FAP) covers most eligible employees of eighteen Associations and AgFirst hired prior to January 1, 2003. The Independent Associations' Retirement Plan (IAR) covers eligible employees of four ACAs whose employment date is prior to January 1, 2009. The First South Farm Credit, ACA Retirement Plan (FS Plan) covers eligible employees of a single ACA whose employment date is prior to January 1, 2009. The AgFirst Farm Credit Cash Balance Retirement Plan covers eligible employees who were either hired on or after January 1, 2003 (for institutions in the FAP Plan) or hired on or after January 1, 2009 for institutions in the IAR Plan or FS Plan. Each plan is noncontributory and covers substantially all employees of the participating entities. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. Pension benefits are primarily based on eligible compensation and years of service.

In addition to providing pension benefits, the Bank and District Associations may provide certain health care and life insurance benefits for the retired employees (other postretirement benefits) through two other postretirement benefit plans. Substantially all employees may become eligible for these benefits if they reach early retirement age, as defined by the plans, while working for the Bank or District Association. The plans are unfunded with expenses paid as incurred.

Substantially all District employees are eligible to participate in the defined contribution Farm Credit Benefits Alliance 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by Internal Revenue Code. AgFirst and District Associations offer a matching contribution up to a maximum employee contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded.

AgFirst and certain District Associations also individually sponsor supplemental defined benefit and defined contribution retirement plans and offer deferred compensation plans for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the District's combined balance sheets in other liabilities.

In accordance with FASB guidance, defined benefit plans covering more than one entity within the District represent multi-employer plans. See Note 13, *Employee Benefit Plans*, for additional financial information for these plans, including the impact of this guidance on the current period.

J. **Income Taxes:** AgFirst and FLCA subsidiaries of ACA parent companies are exempt from federal and other income taxes as provided in the Farm Credit Act.

The ACAs provide for federal and certain other income taxes and are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code. Most District Associations operate as cooperatives under Subchapter T and can deduct from taxable income, amounts distributed as qualified patronage refunds to borrowers in the form of cash, stock, or allocated retained earnings. Amounts distributed as nonqualified patronage refunds are tax deductible by the ACAs only when redeemed. Income taxes are provided only on the earnings not distributed or not expected to be distributed as qualified patronage refunds or those earnings that are exempt from tax due to the long-term lending exemption.

District Associations recognize deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. District Associations may provide a valuation allowance for deferred tax assets to the extent that it is more likely than not that they will not be realized.

At December 31, 2010, deferred income taxes had not been provided by certain District Associations on approximately $125.1 million of patronage refunds received prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. Under GAAP, deferred taxes must be provided on all patronage refunds made to taxable District Associations after December 31, 1992, except to the extent that a portion of these amounts will be distributed in the form of patronage to District Association members.

No deferred taxes have been provided on AgFirst's unallocated earnings. AgFirst currently has no plans to distribute unallocated AgFirst earnings and does not contemplate circumstances, which, if distributions were made, would result in taxes being paid at the Association level.

There were no uncertain positions for income taxes at December 31, 2010.

K. **Derivative Instruments and Hedging Activity:** The Bank is party to derivative financial instruments, primarily interest rate swaps and caps, which are principally used to reduce funding costs. The Bank may also enter into forward contracts to create a fixed purchase price. Derivatives are included in the Combined Balance Sheets as assets and liabilities and reflected at fair value.

Changes in the fair value of a derivative are recorded in current period earnings or accumulated other comprehensive income (loss) (AOCI) depending on the risk being hedged. For fair-value hedge transactions which hedge changes in the fair value of assets, liabilities, or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value and changes reported in earnings. For cash-flow hedge transactions, which hedge the variability of future cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative will generally be deferred and reported in AOCI. The gains and losses on the derivative that are deferred and reported in AOCI will be reclassified into earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recorded in current period earnings. For derivatives not designated as a hedging instrument, if any, the related change in fair value is recorded in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) firm commitments or forecasted transactions. The Bank also formally assesses at the hedge's inception whether the derivatives that are used in hedging transactions will be highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The Bank uses regression analysis (or other statistical analysis) to assess the effectiveness of its hedges on an ongoing basis. The Bank discontinues hedge accounting prospectively when the Bank determines that a hedge has not been or is not expected to be effective as a hedge. For cash flow hedges, any remaining AOCI would be amortized into earnings over the remaining life of the original hedged item. For fair value hedges, changes in the fair value of the derivative will be recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

The Bank may occasionally purchase a financial instrument in which a derivative instrument is "embedded." Upon purchasing the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and may be designated as either a fair value or cash flow hedge. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings, or if the Bank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument.

L. **Valuation Methodologies:** Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable active market exists. Management utilizes third party valuation services to obtain fair value prices for the majority of the District's investment securities. Management also utilizes significant estimates and assumptions to value items for which an observable active market does not exist. Examples of these items include: impaired loans, pension and other post retirement benefit obligations, certain derivatives, certain investment securities and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on the District's results of operations.

Effective January 1, 2008, the Bank adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. 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 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It describes three levels of inputs that may be used to measure fair value as discussed in Note 17.

M. **Off-balance-sheet Credit Exposures:** Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

N. **Recent Accounting Developments:** In June 2009, the Financial Accounting Standards Board (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 District 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 District's financial condition and results of operations.

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

Effective January 1, 2010, the District adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the District's financial condition and results of operations but resulted in additional disclosures (see Note 17).

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period 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 had no impact on the District's financial condition and results of operations but resulted in additional disclosures (see Note 4).

In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delays the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring will be coordinated and is anticipated to be effective for periods ending after June 30, 2011.

Note 3 — Investment Securities

Available-for-sale

A summary of the amortized cost and fair value of District debt securities held as available-for-sale investments at December 31, 2010, 2009 and 2008, follows. At December 31, 2010, the amortized cost and fair value of Bank debt securities held as available-for sale investments were $6.981 billion (99.98 percent) and $7.024 billion (99.99 percent), respectively, of the District total amounts.

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

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

(dollars in thousands)	December 31, 2008 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA MBS/CMOs	$ 3,296,293	$ 6,497	$ (57,508)	$ 3,245,282	2.25%
U.S. Govt. Agency MBS	2,632,141	5,161	(103,309)	2,533,993	2.27
Non-Agency Securities	566,777	275	(162,731)	404,321	1.63
Commercial MBS	13,272	–	(1,505)	11,767	1.89
Asset-Backed Securities	140,386	–	(44,422)	95,964	3.32
Total	$ 6,648,869	$ 11,933	$ (369,475)	$ 6,291,327	2.23%

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

(b) *Gross unrealized losses include non-credit related other-than temporary impairment recognized in AOCI of $18.0 million for Non-Agency CMOs and $17.3 million for Asset-Backed Securities.*

Held-to-maturity

A summary of the amortized cost and fair value of District debt securities held as held-to-maturity investments at December 31, 2010, 2009 and 2008, follows. At December 31, 2010, the amortized cost and fair value of Bank debt securities held as held-to-maturity investments were $1.052 billion (85.26 percent) and $1.114 billion (85.82 percent), respectively, of the District total amounts.

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

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

(dollars in thousands)	December 31, 2008 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	$ 1,510,192	$ 45,341	$ (341)	$ 1,555,192	5.17%
Asset-Backed Securities	131,877	471	(1,380)	130,968	3.06
Mission Related Investments	233,630	7,038	(19,339)	221,329	6.15
Total	$ 1,875,699	$ 52,850	$ (21,060)	$ 1,907,489	5.15%

A summary of the expected maturity, estimated fair value, and amortized cost of investment securities at December 31, 2010 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(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	$ –	– %	$ –	– %	$ 1,277	0.67 %	$ 4,945,734	2.19 %	$ 4,947,011	2.19 %
U.S. Govt. Agency MBS	–	–	23,393	4.79	53,121	0.73	1,670,877	1.44	1,747,391	1.46
Non-Agency CMOs	–	–	–	–	–	–	295,526	0.67	295,526	0.67
Commercial MBS	–	–	–	–	–	–	925	6.96	925	6.96
Asset-Backed Securities	–	–	–	–	–	–	34,437	0.70	34,437	0.70
Total fair value	$ –	– %	$ 23,393	4.79 %	$ 54,398	0.73 %	$ 6,947,499	1.92 %	$ 7,025,290	1.92 %
Total amortized cost	$ –		$ 21,803		$ 54,182		$ 6,905,967		$ 6,981,952	

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	$ –	– %	$ –	– %	$ 2,319	5.01 %	$ 911,329	5.35 %	$ 913,648	5.35 %
Asset-Backed Securities	1,749	1.97	11,947	1.41	52,084	1.51	16,672	1.59	82,452	1.52
Mission Related Investments	24,754	5.52	25,346	6.65	33,588	6.31	154,474	6.03	238,162	6.08
Total amortized cost	$ 26,503	5.29 %	$ 37,293	4.97 %	$ 87,991	3.43 %	$ 1,082,475	5.39 %	$ 1,234,262	5.24 %
Total fair value	$ 26,855		$ 39,107		$ 90,021		$ 1,142,105		$ 1,298,088	

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.

Proceeds from sales and realized gains and losses on sales of investment securities are as follows:

(dollars in thousands)	Year Ended December 31, 2010	2009	2008
Proceeds from sales	$ 100,446	$ 167,262	$ –
Realized gains	1,406	9,918	–
Realized losses	–	–	–

AgFirst's and certain District Association 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.

MBSs are collateralized by U.S. government or U.S. agency guaranteed residential mortgages and all were rated AAA/Aaa at December 31, 2010. Non-agency CMO securities not rated in the top category by at least one of the NRSROs at December 31, 2010 had a fair value of $211.0 million. ABSs not rated in the top category by at least one of the NRSROs at December 31, 2010 had a fair value of $24.2 million. For each of these investment securities in the District's portfolio rated below AAA/Aaa, the District has developed and submitted plans for approval by the FCA that provide that the securities may be held to maturity. The FCA has approved, with conditions, the District's plans for all but five investments that have recently become ineligible. The District has submitted a plan to hold these five investments to the FCA for approval and is awaiting a response.

The fair value of all investments at December 31, 2010 split rated AAA/Aaa or lower by the NRSROs totaled $317.1 million (amortized cost of $386.8 million). This represents approximately 3.81 percent (and 4.71 percent) of total fair value (and amortized cost) of the District's total investment portfolio at December 31, 2010. Split rated AAA/Aaa is defined as a security maintaining different ratings by the NRSROs with at least one NRSRO rating the security AAA/Aaa.

Rural America Bonds consist of private placement securities purchased under the Mission Related Program approved by the FCA. In 2009, certain District Associations reclassified mission-related investments purchased in 2008, which totaled $18.9 million from loans to investments. The reclassification better reflects the nature of these financial instruments and provides for consistent presentation across the District.

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 tables show the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at December 31, 2010, 2009, and 2008. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

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

	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)	347,984	(98,444)	360,026	(100,839)
Asset-Backed Securities	18,897	(153)	97,021	(20,763)	115,918	(20,916)
Mortgage-Backed Securities	–	–	9,814	(539)	9,814	(539)
Mission Related Investments	67,072	(11,949)	75,690	(7,620)	142,762	(19,569)
Total	$ 497,734	$ (17,753)	$ 3,169,660	$ (181,613)	$ 3,667,394	$ (199,366)

	December 31, 2008					
	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	$ 2,378,988	$ (41,030)	$ 317,983	$ (16,478)	$ 2,696,971	$ (57,508)
U.S. Govt. Agency MBS	1,209,921	(47,272)	925,178	(56,378)	2,135,099	(103,650)
Non-Agency Securities	35,707	(12,349)	350,151	(150,383)	385,858	(162,732)
Asset-Backed Securities	45,753	(606)	111,168	(45,196)	156,921	(45,802)
Mortgage-Backed Securities	1,626	(492)	10,141	(1,012)	11,767	(1,504)
Other	100,338	(13,501)	23,248	(5,838)	123,586	(19,339)
Total	$ 3,772,333	$ (115,250)	$ 1,737,869	$ (275,285)	$ 5,510,202	$ (390,535)

On December 31, 2010, the District held certain investments having continuous unrealized loss positions greater than 12 months with a fair value totaling $1.306 billion and an unrealized loss position totaling $99.2 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 District intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the District does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The District performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes. Based on the results of all analyses, the District has recognized total other-than-temporary impairment during 2010 of $9.2 million in connection with ABS securities and non-agency CMO securities in its portfolio, which is included in Impairment Losses on Investments in the Combined Statements of Income.

Since the District does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the other-than temporary impairment of $9.2 million is separated into: (1) the estimated amount relating to credit loss ($11.9 million reflected in Net Income in the Combined Statements of Income), which is partially offset by (2) the amount relating to all other factors ($2.7 million reflected in other comprehensive income in the Combined Statement of Changes in Shareholders' Equity).

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

Significant inputs used in this technique to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan to collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The District obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The forecasted cumulative default rates used at December 31, 2010 ranged from 1.61 percent to 47.29 percent for non-agency CMO securities and from 23.21 percent to 74.41 percent for ABS securities. Prepayment rate assumptions are based on forecasted prepayments and resulted in prepayment rates that ranged from 2.91 percent to 11.18 percent for non-agency CMO securities and from 3.02 percent to 9.71 percent for ABS securities at December 31, 2010. At December 31, 2010, the loss severity rates estimated from assumptions ranged from 4.39 percent to 58.70 percent for non-agency CMO securities and from 55.45 percent to 100.00 percent for ABS securities.

For all investments other than the other-than-temporarily impaired securities discussed above, the District has not recognized any other-than-temporary impairment as the unrealized losses resulted from non-credit related factors. The District has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U. S. government agency securities and the District expects these securities would not be settled at a price less than their amortized cost. For the year ended December 31, 2010, net unrealized gains of $150.8 million were recognized in other comprehensive income for not other-than-temporarily impaired available-for-sale investments.

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

(dollars in thousands)		**For the twelve months ended December 31, 2010**
Beginning balance at January 1, 2010	$	33,445
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized		1,327
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized		10,585
Reductions for increases in expected cash flows		(280)
Ending balance at December 31, 2010	$	45,077

(dollars in thousands)		**For the twelve months ended December 31, 2009**
Beginning balance at January 1, 2009	$	–
Adjustment to beginning balance due to application of investment impairment accounting change		6,991
Adjusted beginning balance at January 1, 2009		6,991
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized		24,372
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized		2,082
Ending balance at December 31, 2009	$	33,445

Note 4 — Loans and Allowance for Loan Losses

For a description of the District's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2, subsection C., above.

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

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

The credit risk rating process for loans uses a two-dimensional loan rating structure, incorporating a 14-point risk-rating scale (see further discussion in Note 2, subsection C above) to identify and track a borrower's probability of default and a separate scale addressing loss given default. The loan rating structure calculates estimates of loss through two components, borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

The District's loan portfolio has been segmented by the following loan types as defined by the FCA:

- Real estate mortgage loans —generally to purchase farm real estate, refinance existing mortgages, construct various facilities used in agricultural operations, or purchase other rural residential/lifestyle real estate for both full-time and part-time farmers. In addition, credit for other agricultural purposes and family needs is available to full-time and part-time farmers. Real estate mortgage loans have maturities ranging from five to thirty years and must be secured by first liens on the real estate. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory maximum percentage.

- Production and intermediate-term loans —for operating funds, equipment and other purposes. Eligible financing needs include operating inputs (such as labor, feed, fertilizer, and repairs), livestock, family living expenses, income taxes, debt payments on machinery or equipment, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically less than 12 months. Intermediate-term loans typically finance depreciable capital assets of a farm or ranch. Examples of the uses of intermediate-term loans are to purchase or refinance farm machinery, vehicles, equipment, breeding livestock, or farm buildings, to make improvements, or to provide working capital. Intermediate-term loans are made for a specific term, generally 10 years or less. These loans may be made on a secured or unsecured basis, but are normally secured.

- Agribusiness loans — may be made on a secured or unsecured basis.

  - Loans to cooperatives — loans for any cooperative purpose other than for communication, energy, and water and waste disposal.

  - Processing and marketing loans — for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.

  - Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.

- Rural residential real estate loans — to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans must be secured by a first lien on the property, except that it may be secured by a second lien if the institution also holds the first lien on the property.

- Communication loans — primarily to finance rural communication companies.

- Energy loans — primarily to finance electric generation, transmission and distribution systems serving rural areas.

- Water and waste disposal loans —primarily to finance water and waste disposal systems serving rural areas.

- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.

- Lease receivables — the net investment for all finance leases (such as direct financing leases, leveraged leases, and sales-type leases) where the District is the lessor.

- Loans to other financial institutions (OFIs) — loans to other financial institutions with which the District has a lending relationship.

- Other (including mission-related) — In addition to making loans to accomplish the System's Congressionally mandated mission to finance agriculture and rural America, the District may make investments in rural America to address the diverse needs of agriculture and rural communities across the country. The Farm Credit Administration approves these investments on a program or a case-by-case basis. Examples of investment programs that the Farm Credit Administration will consider include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding follows:

(dollars in thousands)	December 31, 2010	2009	2008
Real estate mortgage	$ 9,986,760	$ 9,870,486	$ 9,425,180
Production and intermediate-term	8,105,060	8,270,399	8,556,501
Agribusiness			
Loans to cooperatives	304,161	355,392	318,818
Processing and marketing	1,355,811	1,652,286	1,945,207
Farm-related business	342,984	353,353	492,446
Total agribusiness	2,002,956	2,361,031	2,756,471
Communication	200,578	185,261	247,364
Energy	342,614	352,446	241,956
Water and waste disposal	28,024	28,000	28,000
Rural residential real estate	2,258,480	2,007,563	1,682,845
Lease receivables	10,697	15,871	13,385
Loans to other financial institutions (OFIs)	5,000	7,000	7,150
Other (including mission-related)	92,724	110,132	118,884
Total Loans	$ 23,032,893	$ 23,208,189	$ 23,077,736

The District's concentration of credit risk is spread among various agricultural commodities. A substantial portion of the District's lending activities are collateralized, and, accordingly, the credit risk associated with lending activities is considerably less than the recorded loan principal and is considered in the allowance for loan losses.

The District may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. The following table presents the principal balance of participations purchased and sold at December 31, 2010:

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

A significant source of liquidity for the District is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at December 31, 2010 and indicates that approximately 21.53 percent of loans had maturities of one year or less:

(dollars in thousands)	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 966,982	$ 2,940,720	$ 6,079,058	$ 9,986,760
Production and intermediate-term	2,943,786	3,208,890	1,952,384	8,105,060
Agribusiness				
Loans to cooperatives	160,033	85,490	58,638	304,161
Processing and marketing	581,838	561,587	212,386	1,355,811
Farm-related business	113,678	156,003	73,303	342,984
Total agribusiness	855,549	803,080	344,327	2,002,956
Communication	82,701	94,765	23,112	200,578
Energy	61,579	121,241	159,794	342,614
Water and waste disposal	–	24	28,000	28,024
Rural residential real estate	35,890	83,458	2,139,132	2,258,480
Lease receivables	8,051	2,457	189	10,697
Loans to OFIs	–	5,000	–	5,000
Other (including mission-related)	5,029	3,942	83,753	92,724
Total Loans	$ 4,959,567	$ 7,263,577	$ 10,809,749	$ 23,032,893

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31, 2010, 2009, and 2008:

	2010	2009	2008
Real estate mortgage:			
Acceptable	87.46%	88.11%	92.91%
OAEM	5.48	5.64	4.26
Substandard/doubtful/loss	7.06	6.25	2.83
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	83.80%	84.86%	91.16%
OAEM	9.10	7.52	4.31
Substandard/doubtful/loss	7.10	7.62	4.53
	100.00%	100.00%	100.00%
Agribusiness:			
Loans to cooperatives: *			
Acceptable	86.38%		
OAEM	11.93		
Substandard/doubtful/loss	1.69		
	100.00%		
Processing and marketing: *			
Acceptable	76.94%		
OAEM	12.08		
Substandard/doubtful/loss	10.98		
	100.00%		
Farm-related business: *			
Acceptable	92.55%		
OAEM	3.58		
Substandard/doubtful/loss	3.87		
	100.00%		
Total agribusiness			
Acceptable	81.05%	79.50%	87.58%
OAEM	10.60	7.47	3.97
Substandard/doubtful/loss	8.35	13.03	8.45
	100.00%	100.00%	100.00%
Communication:			
Acceptable	98.83%	97.37%	99.62%
OAEM	–	–	0.38
Substandard/doubtful/loss	1.17	2.63	–
	100.00%	100.00%	100.00%
Energy and water/waste disposal:			
Acceptable	95.64%	98.16%	100.00%
OAEM	3.26	1.84	–
Substandard/doubtful/loss	1.10	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	98.40%	98.15%	98.47%
OAEM	0.57	0.80	0.81
Substandard/doubtful/loss	1.03	1.05	0.72
	100.00%	100.00%	100.00%
Lease receivables:			
Acceptable	92.48%	92.87%	100.00%
OAEM	2.51	2.27	–
Substandard/doubtful/loss	5.01	4.86	–
	100.00%	100.00%	100.00%

**Disaggregated Agribusiness data is only available for 2010*

	2010	2009	2008
Loans to OFIs:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Other (including mission-related)			
Acceptable	77.07%	84.75%	100.00%
OAEM	7.91	7.80	–
Substandard/doubtful/loss	15.02	7.45	–
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	86.87%	87.17%	92.23%
OAEM	6.65	5.98	3.88
Substandard/doubtful/loss	6.48	6.85	3.89
	100.00%	100.00%	100.00%

**Disaggregated Agribusiness data is only available for 2010*

The following table provides an age analysis of past due loans and related accrued interest as of December 31, 2010:

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

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

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	December 31,		
(dollars in thousands)	**2010**	**2009**	**2008**
Nonaccrual loans:			
Real estate mortgage	$ 405,976	$ 350,517	$ 171,906
Production and intermediate-term	317,832	298,490	202,412
Agribusiness			
Loans to cooperatives *	4,911		
Processing and marketing *	36,302		
Farm-related business *	8,195		
Total agribusiness	49,408	102,058	170,372
Communication	2,358	4,893	–
Rural residential real estate	12,246	13,346	6,768
Lease receivables	279	349	–
Other (including mission-related)	6,977	–	–
Total nonaccrual loans	$ 795,076	$ 769,653	$ 551,458
Accruing restructured loans:			
Real estate mortgage	$ 7,730	$ 8,132	$ 1,029
Production and intermediate-term	10,818	739	28
Agribusiness			
Processing and marketing *	30,683		
Total agribusiness	30,683	–	–
Total accruing restructured loans	$ 49,231	$ 8,871	$ 1,057
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 4,604	$ 3,611	$ 2,109
Production and intermediate-term	1,195	576	9,000
Agribusiness*	–	–	59
Rural residential real estate	6,374	8,931	6,219
Other (including mission-related)	543	–	–
Total accruing loans 90 days or more past due	$ 12,716	$ 13,118	$ 17,387
Accruing loans less than 90 days past due:			
Real estate mortgage	$ –	$ 10,119	$ –
Total nonperforming loans	$ 857,023	$ 801,761	$ 569,902
Other property owned	146,416	73,354	14,228
Total nonperforming assets	$ 1,003,439	$ 875,115	$ 584,130
Nonaccrual loans as a percentage of total loans	3.45%	3.32%	2.39%
Nonperforming assets as a percentage of total loans and other property owned	4.33%	3.76%	2.53%
Nonperforming assets as a percentage of capital	24.14%	24.13%	18.71%

**Disaggregated Agribusiness data is only available for 2010.*

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

	December 31,		
(dollars in thousands)	**2010**	**2009**	**2008**
Impaired nonaccrual loans:			
Current as to principal and interest	$ 268,131	$ 390,650	$ 376,955
Past due	526,945	379,003	174,503
Total impaired nonaccrual loans	795,076	769,653	551,458
Impaired accrual loans:			
Restructured	49,231	8,871	1,057
90 days or more past due	12,716	13,118	17,387
Less than 90 days past due	–	10,119	–
Total impaired accrual loans	61,947	32,108	18,444
Total impaired loans	$ 857,023	$ 801,761	$ 569,902

Additional impaired loan information is as follows:

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

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

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

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

(dollars in thousands)	Year Ended December 31, 2010	2009	2008
Interest income which would have been recognized under the original loan terms	$ 43,665	$ 49,970	$ 22,346
Less: interest income recognized	16,047	13,969	5,243
Foregone interest income	$ 27,618	$ 36,001	$ 17,103

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

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

To mitigate risk of loan losses, District Associations have entered into Long-Term Standby Commitments to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac), through an arrangement with the Bank. The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Bank and Associations the right to sell the loans identified in the agreements to the Bank and Associations, which can, in turn, sell them to Farmer Mac in the event of default, (typically four months past due), subject to certain conditions. The balance of loans under Long-Term Standby Commitments to Purchase was $2.14 billion, $1.82 billion, and $1.51 billion at December 31, 2010, 2009, and 2008, respectively. Fees paid to Farmer Mac for such commitments totaled $1.8 million, $1.8 million, and $2.0 million for 2010, 2009, and 2008, respectively. Fees paid for credit guarantees by the Bank and Associations to government sponsored enterprises (GSEs) other than Farmer Mac, primarily the Federal National Mortgage Association (FNMA), were $7.4 million, $5.3 million, and $2.1 million for 2010, 2009, and 2008, respectively. These amounts are classified as noninterest expense.

Note 5 — Other Investments

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004". The Tobacco Act repealed the Federal tobacco price support and quota programs, provides for payments to tobacco "quota owners" and producers for the elimination of the quota, and provides an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that they may obtain a lump sum or other payment. On April 4, 2005, the USDA issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA determined that System institutions are "financial institutions" within the meaning of the Tobacco Act and are, therefore, eligible to participate in the Tobacco Buyout. The FCA recognized that the Tobacco Buyout has significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA's goal is to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities. As of December 31, 2010, eleven District Associations held investments in Tobacco Buyout Successor-in-Interest Contracts (SIICs) of $306.0 million.

Note 6 — Premises and Equipment

Premises and equipment consisted of the following:

	December 31,		
(dollars in thousands)	2010	2009	2008
Land	$ 26,952	$ 25,730	$ 24,432
Buildings and improvements	118,546	114,426	106,938
Furniture and equipment	112,156	121,547	114,807
Work in progress	985	395	3,577
	258,639	262,098	249,754
Less: accumulated depreciation	132,944	135,248	122,904
Total	$ 125,695	$ 126,850	$ 126,850

Note 7 — Other Property Owned

Net gains (losses) on other property owned consisted of the following:

	December 31,		
(dollars in thousands)	2010	2009	2008
Gains (losses) on sale, net	$ (4,879)	$ (1,758)	$ 29
Carrying value adjustments	(23,390)	(3,758)	(365)
Operating income (expense), net	(2,200)	(4,668)	(766)
Total	$ (30,469)	$ (10,184)	$ (1,102)

Deferred gains on sales of other property owned totaled $12.6 million, $12.7 million, and $0 at December 31 2010, 2009, and 2008, respectively. Gains were primarily deferred as the sales involved financing from the Bank and/or District Associations. Deferred gains of $10.1 million are included in Loans and deferred gains of $2.6 million are included in Other Liabilities in the Combined Balance Sheets.

Note 8 — Other Assets and Other Liabilities

A summary of other assets and other liabilities follows:

	December 31,		
(dollars in thousands)	2010	2009	2008
Other assets:			
Derivative assets	$ 62,245	$ 70,041	$ 124,982
Unamortized debt issue costs	20,661	17,832	20,647
Federal Home Loan Mortgage Corporation principal receivable	5,555	6,206	1,721
Farm Credit Captive Insurance Fund	10,279	10,469	9,761
Third party subservicer receivable	42,110	25,749	19,179
Prepaid expenses	5,304	6,014	3,747
Other	33,182	31,674	32,651
Total	$ 179,336	$ 167,985	$ 212,688
Other liabilities:			
Accounts payable	$ 23,971	$ 22,117	$ 23,002
Derivative liabilities	8,781	229	469
Farm Credit System Ins. Corp. payable	12,268	48,029	35,197
Bank draft payable	36,354	40,889	44,779
Payroll	21,508	20,821	20,624
Short-term funds held	–	–	9,822
Cash collateral pledged from derivative counterparties	18,319	14,065	7,963
Other	21,337	17,825	17,544
Total	$ 142,538	$ 163,975	$ 159,400

Note 9 — Bonds and Notes

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued by the banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets, at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks. The System banks and the Funding Corporation have entered into the Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liabilities. The MAA was amended and restated in July 2003. At December 31, 2010, AgFirst was in compliance with the conditions of participation for the issuances of Systemwide Debt Securities.

Each issuance of Systemwide Debt Securities ranks equally, in accordance with the FCA regulations, with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The System may issue the following types of Systemwide Debt Securities:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Master Notes,
- Federal Farm Credit Banks Global Debt Securities, and
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes.

Additional information regarding Systemwide Debt Securities can be found in their respective offering circulars.

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In the following table, regarding the District's participation in outstanding Systemwide Debt Securities, weighted average interest rates include the effect of related derivative financial instruments.

	Bonds		Discount Notes		Total	
Maturities	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
			(dollars in thousands)			
2011	$ 8,526,558	0.80%	$ 3,702,254	0.26%	$ 12,228,812	0.64%
2012	5,610,687	0.72	-	-	5,610,687	0.72
2013	3,199,581	1.28	-	-	3,199,581	1.28
2014	1,726,951	1.74	-	-	1,726,951	1.74
2015	1,434,796	2.11	-	-	1,434,796	2.11
2016 and after	4,124,742	3.09	-	-	4,124,742	3.09
Total	$ 24,623,315	1.37%	$ 3,702,254	0.26%	$ 28,325,569	1.22%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at December 31, 2010, was 89 days.

Systemwide debt includes callable bonds consisting of the following:

Amortized Cost	First Call Date	Year of Maturity
(dollars in thousands)		
$ 12,630,000	2011	2011 – 2025
42,000	2012	2015 – 2018
10,000	2013	2018
$ 12,682,000	Total	

Most callable debt may be called on the first call date and any time thereafter.

As described in Note 1, the Insurance Fund is available to ensure the timely payment of principal and interest on Systemwide Debt Securities (Insured Debt) of System banks to the extent net assets are available in the Insurance Fund and not designated for specific use. All other liabilities on the financial statements are uninsured. At December 31, 2010 the assets of the Insurance Fund aggregated $3.226 billion; however, due to the other authorized uses of the Insurance Fund there is no assurance that any available amount in the Insurance Fund will be sufficient to fund the timely payment of principal or interest on an Insured Debt obligation in the event of a default by any System bank having primary liability thereon.

In 2008, the Bank sold a total of $200.0 million of participations in its direct note receivable from a District Association to another System Bank. The $200.0 million note payable at December 31, 2010 is included in Bonds and Notes in the Combined Balance Sheets and bears interest at an annual variable rate of one month LIBOR plus 47 basis points with maturity on December 31, 2013.

Note 10 — Mandatorily Redeemable Preferred Stock

On May 17, 2001, AgFirst issued $225.0 million of Mandatorily Redeemable Cumulative Preferred Stock at a par value of $1 thousand per share. This stock is mandatorily redeemable on December 15, 2016. The stock carries a stated annual dividend rate of 8.393 percent until December 15, 2011, with dividends paid semi-annually in arrears on June 15th and December 15th. Commencing March 15, 2012, dividends are paid quarterly in arrears at a floating rate per annum equal to 3 month LIBOR plus 3.615 percent. On or after the dividend payment date in December 2011, the preferred stock will be redeemable in whole or in part at the option of AgFirst on any dividend payment date at par value of $1 thousand per share together with accrued and unpaid dividends to the redemption date. The Mandatorily Redeemable Preferred Stock is reported as a liability and the related dividends are reported as interest expense. Although the Mandatorily Redeemable Preferred Stock is required to be reported as a liability under GAAP, it qualifies as capital for certain regulatory purposes.

Note 11 — Protected Borrower Equity and Shareholders' Equity

Descriptions of the District's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. **Protected Stock:** Protection of certain borrower equity is provided under the Farm Credit Act which requires AgFirst and District Associations to retire such capital at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates, and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If a Bank or an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this stock would be obtained from the Insurance Fund.

B. **Perpetual Preferred Stock:** On October 14, 2003, AgFirst issued $150.0 million of Perpetual Non-Cumulative Preferred Stock at a par value of $1 thousand per share. Dividends on the stock are non-cumulative and payable on the 15th day of June and December in each year, commencing December 15, 2003, at an annual rate equal to 7.30 percent. In the event dividends are not declared on the preferred stock for payment on any dividend payment date, then such dividends shall not cumulate and shall cease to accrue and be payable. On or after the dividend payment date in December 2008, AgFirst may, at its option, redeem the preferred stock in whole or in part at any time at the redemption price of $1 thousand per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption.

   On June 8, 2007, AgFirst issued $250.0 million of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock, Series 1. Dividends on the stock are non-cumulative and are payable semi-annually in arrears on the 15th day of June and December in each year, commencing December 15, 2007, and ending on June 15, 2012, at an annual rate equal to 6.585 percent of the par value of $1 thousand per share, and will thereafter, commencing September 15, 2012, be payable quarterly in arrears on the 15th day of March, June, September, and December in each year, at an annual rate equal to 3-Month USD LIBOR plus 1.13 percent. In the event dividends are not declared on the Class B, Series 1 Preferred Stock for payment on any dividend payment date, then such dividends shall not cumulate and shall cease to accrue and be payable.

   Payment of dividends or redemption price on the Preferred Stock may be restricted if the Bank fails to satisfy applicable minimum capital adequacy, surplus, and collateral requirements.

C. **Capital Stock, Participation Certificates and Retained Earnings:** In accordance with the Farm Credit Act, borrowers are generally required to invest in their respective associations as a condition of borrowing. The District Associations' capital stock requirements are generally the lesser of 2.00 percent of the amount of the loan or $1 thousand. Some District Associations have dollar maximums, which range from $1 thousand to $5 thousand. Loans designated for sale or sold into the Secondary Market have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation. Association capitalization plans presently establish stock requirements in accordance with the Farm Credit Act and their respective bylaws.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. AgFirst and the Association have a first lien on the stock or participation certificates owned by their respective borrowers. Retirement of such equities will generally be at the lower of par or book value and repayment of a loan cannot automatically result in retirement of the corresponding stock or participation certificates.

District Associations:

The District Associations are generally authorized to issue or have outstanding Preferred stock, Common stock, Participation Certificates, and such other classes of equity as may be provided for in the bylaws. All classes of stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The District Associations had the following shares outstanding at December 31, 2010:

		Shares Outstanding *(dollars in thousands)*	
Class	**Protected Status**	**Number**	**Aggregate Par Value**
Common Nonvoting	Yes	712,200	$ 3,561
Common Voting	No	17,605,000	88,025
Participation Certificates	Yes	16,000	80
Participation Certificates	No	1,523,400	7,617
Preferred	No	8,854,600	44,273
Total Association Capital Stock, Participation Certificates and Protected Borrower Equity		28,711,200	$ 143,556

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the respective boards of directors (Boards) at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Boards are met.

Participation Certificates are nonvoting and may be issued as a condition for obtaining a loan to rural home borrowers, to persons or organizations furnishing farm-related services, to persons or organizations who are eligible to borrow or participate in loans, but who are not eligible to hold voting stock, and to persons or organizations eligible to borrow for the purpose of qualifying them for technical assistance, financially related services, and/or leasing services offered by the Association.

Preferred Stock may be issued to such persons or investors as may be permitted under a plan adopted by each Board. Retirement will be at the sole discretion of each Board provided that the minimum capital adequacy standards established by the Board are met. If retired, Preferred Stock will be retired at its book value, not to exceed its par value. Preferred Stock is nonvoting and generally has preference over common stock and participation certificates as to dividends, and priority in the event of liquidation of an Association.

Retained Earnings

The Associations maintain unallocated retained earnings accounts and allocated retained earnings accounts. The minimum aggregate amounts of these two accounts are determined by each Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of an Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board.

The Associations maintain allocated retained earnings accounts consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss by an Association for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Associations have a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, an Association, upon approval of its Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by FCA and the Board are met. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2010, combined allocated retained earnings consisted of $174.7 million of qualified surplus, $511.9 million of nonqualified allocated surplus and $633.3 million of nonqualified retained surplus.

Dividends

An Association may declare dividends on its capital stock and participation certificates. Such dividends generally may be paid solely on Preferred Stock, or on all classes of stock and participation certificates.

Patronage Distributions

Prior to the beginning of any fiscal year, each Board, by adoption of a resolution, may obligate its Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions, if made by that Association, are based on the proportion of the borrower's interest to the amount of interest earned by that Association on its total loans unless another proportionate patronage basis is approved by the Board.

If an Association will meet its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated retained earnings account, or combinations of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board.

Amounts not distributed are retained as unallocated retained earnings.

Transfer

Equities may generally be transferred to persons or entities eligible to purchase or hold such equities under an Association's bylaws.

Impairment

Any net losses recorded by an Association shall first be applied against unallocated retained earnings. To the extent that such losses would exceed unallocated retained earnings, resulting in impairment of the Association's allocated retained earnings or capital stock, such losses would be applied pro rata to each share and/or unit outstanding, provided applications shall be made to allocated retained earnings by annual series, with the most recent allocations applied first.

Liquidation

In the event of the liquidation or dissolution of an Association, any assets of the Association remaining after payment or retirement of all liabilities may be distributed either to the holders of the outstanding stock and participation certificates or on a patronage basis, dependent upon the bylaws of the Association.

AgFirst:

Capital Stock and Allocated Retained Earnings — District Associations are required to invest in the capital stock of AgFirst. These intercompany balances and transactions are eliminated in combination. Additionally, AgFirst has issued and has outstanding $9.9 million in Class D Common stock, which is a nonvoting class of stock with a $5.00 par value.

Other Equity — At the inception of each other financing institutions (OFI) loan, AgFirst requires OFIs to make cash purchases of participation certificates in AgFirst. AgFirst has a first lien on these equities for the repayment of any indebtedness to AgFirst. At December 31, 2010, AgFirst had $236 thousand of participation certificates outstanding to OFIs at a face value of $5.00 per share.

Regulatory Capitalization Requirements and Restrictions

FCA's capital adequacy regulations require AgFirst and District Associations to achieve permanent capital of seven percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the seven percent permanent capital requirement can lead to the initiation of certain mandatory and possibly additional discretionary actions by the the FCA that, if undertaken, could have a direct material effect on AgFirst's or District Associations' operations and Combined Financial Statements. AgFirst and District Associations are prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. FCA Regulations also require all System institutions to achieve and maintain additional capital adequacy ratios as defined by FCA Regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of seven percent and core surplus as a percentage of risk-adjusted assets of three and one-half percent.

AgFirst's capital adequacy is also evaluated using a ratio of net collateral to total liabilities. Subsequent to the issuance of the mandatorily redeemable preferred stock, FCA now requires AgFirst to maintain a minimum net collateral ratio of 104.00 percent compared to the regulatory minimum of 103.00 percent. At December 31, 2010, AgFirst's net collateral ratio was 106.44 percent. For purposes of calculating this ratio, net collateral is not risk adjusted.

All twenty-two District Associations are organized as ACAs with FLCA and PCA subsidiaries. These subsidiaries and the ACA operate under a common board of directors and joint management. As a result, these District Associations are jointly obligated on each other's liabilities and are evaluated on a consolidated basis for capital adequacy and other regulatory purposes.

Two Associations did not meet the regulatory minimum core surplus ratio as of December 31, 2010. Core surplus consists of unallocated equities and certain includible allocated equities. However, in the event unallocated equities are less than 1.50 percentage points, no more than 2.00 percentage points of the minimum ratio may consist of includible allocated equities. One of these Associations actually held 13.14 percent of includible allocated equities at December 31, 2010. The Association board of directors was required to submit a capital restoration plan to FCA. The plan included monitoring, reporting, and actions to ensure the minimum ratio is achieved and maintained. The other Association actually held 14.30 percent of includible allocated equities at December 31, 2010. This Association merged with and into Farm Credit of South Florida, ACA, effective January 1, 2011 (see Note 23 below). These Associations were in compliance with the other required minimum capital ratios and all other District entities were in compliance with required minimum capital standards at December 31, 2010.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. AgFirst and District Associations have not been called upon to initiate any transfers and are not aware of any proposed action under this regulation.

An additional component of retained earnings is accumulated other comprehensive income (loss), which is reported net of taxes. The balance at December 31 was comprised of the following components:

(dollars in thousands)	2010	2009	2008
Unrealized (losses) gains on investments available-for-sale	$ 43,337	$ (121,881)	$ (357,542)
Employee benefit plan adjustments	(326,166)	(316,765)	(373,249)
Cash flow hedges	(8,751)	–	–
Total accumulated other comprehensive income (loss)	$ (291,580)	$ (438,646)	$ (730,791)

Note 12 — Income Taxes

The provision (benefit) for income taxes follows for the year ended December 31:

	Year Ended December 31,		
(dollars in thousands)	2010	2009	2008
Current:			
Federal	$ 451	$ 3,272	$ (17)
State	215	626	70
	666	3,898	53
Deferred:			
Federal	1	(8)	12
State	–	–	–
	1	(8)	12
Total provision (benefit) for income taxes	$ 667	$ 3,890	$ 65

The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	Year Ended December 31,		
(dollars in thousands)	2010	2009	2008
Federal tax at statutory rate	$187,866	$125,377	$123,619
State tax, net	167	262	185
Tax-exempt FLCA earnings	(79,539)	(60,170)	(66,048)
Association patronage distributions	(42,290)	(34,789)	(42,934)
Nontaxable Bank income	(72,796)	(43,088)	(20,282)
Change in valuation allowance	8,672	13,621	9,883
Other	(1,413)	2,677	(4,358)
Provision for income taxes	$ 667	$ 3,890	$ 65

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
(dollars in thousands)	2010	2009	2008
Allowance for loan losses	$ 29,025	$ 29,566	$ 19,662
Nonaccrual loan interest	12,794	8,098	4,690
Postretirement benefits other than pensions	19,267	19,544	19,566
Nonqualified patronage distributions	–	–	–
Loss carryforwards	17,289	12,447	11,684
Other	3,842	3,821	2,827
Gross deferred tax asset	82,217	73,476	58,429
Less: valuation allowance	(61,042)	(52,368)	(38,747)
Gross deferred tax assets, net of valuation allowance	21,175	21,108	19,682
Bank patronage	(5,988)	(5,500)	(4,112)
Pensions	(13,176)	(13,595)	(13,483)
Depreciation	(342)	(401)	(323)
Other	(1,669)	(1,611)	(1,771)
Gross deferred tax liability	(21,175)	(21,107)	(19,689)
Net deferred tax asset (liability)	$ –	$ 1	$ (7)

In evaluating the ability to recover its deferred income tax asset, an Association considers all available positive and negative evidence, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction-by-jurisdiction basis. The valuation allowance has been provided due to the uncertainty regarding the realizability of certain deferred assets in excess of deferred liabilities.

At December 31, 2010, deferred income taxes have not been provided by District Associations on approximately $125.1 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

There were no uncertain tax positions identified related to the current year, and the District has no unrecognized tax benefits at December 31, 2010 for which liabilities have been established. The District recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2006 and forward.

Note 13 — Employee Benefit Plans

The employees of the District may participate in one of four defined benefit retirement plans. The AgFirst Farm Credit Retirement Plan (FAP) covers eligible employees of seventeen Associations and AgFirst hired prior to January 1, 2003. The Independent Associations' Retirement Plan (IAR) covers eligible employees of four ACAs whose employment date is prior to January 1, 2009. The First South Farm Credit, ACA Retirement Plan (FS Plan) covers eligible employees of a single ACA whose employment date is prior to January 1, 2009. The AgFirst Farm Credit Cash Balance Retirement Plan covers eligible employees who were either hired on or after January 1, 2003 (for institutions in the FAP Plan) or hired on or after January 1, 2009 for institutions in the IAR Plan or FS Plan. Each plan is noncontributory and collectively the plans cover substantially all employees of the participating entities. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. Pension benefits are primarily based on eligible compensation and years of service. The District entities funded $47.3 million, $53.1 million, and $30.8 million into these retirement plans for each of the three years ended December 31, 2010, 2009, and 2008, respectively. The expenses of these retirement plans included in salaries and employee benefits were $46.5 million for 2010, $55.1 million for 2009, and $10.8 million for 2008.

In addition to providing pension benefits, the Bank and District Associations provide certain health care and life insurance benefits for eligible retired employees (other postretirement benefits) through two other postretirement benefit plans. Life insurance benefits are no longer provided to previously eligible employees who retired subsequent to December 1, 2007. The first plan covers most employees of twenty-one Associations and AgFirst. Under this plan, employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage (no employer subsidy). The second plan covers employees of a single ACA. Substantially all employees may become eligible for the benefits if they reach early retirement age, as defined by the plans, while working for the Bank or District Associations. The plans are unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in salaries and employee benefits were $8.6 million for 2010, $8.7 million for 2009, and $7.8 million for 2008.

The District participates in the defined contribution Farm Credit Benefits Alliance 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Bank and Associations contribute $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Bank and Associations contribute $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan were $6.1 million, $5.9 million, and

$5.7 million for the years ended December 31, 2010, 2009, and 2008, respectively.

AgFirst and certain District Associations individually sponsor defined benefit and defined contribution supplemental retirement plans and offer deferred compensation plans for certain key compensated employees. These plans are nonqualified; therefore, the associated liabilities are included in the District's combined balance sheets in other liabilities. The District entities funded $512 thousand for the year ended December 31, 2010, and $495 and $489 thousand for the years ended December 31, 2009 and 2008 into these supplemental retirement plans. The expenses of these supplemental plans included in the District's retirement costs were $1.7 million, $1.4 million, and $1.6 million for the years ended December 31, 2010, 2009, and 2008, respectively.

In September 2006, FASB issued guidance, which required the recognition of the overfunded or underfunded status of defined benefit pension and other postretirement benefit plans on the balance sheet. On December 31, 2007, the District adopted the balance sheet recognition provisions of this guidance for all defined benefit pension and other postretirement benefit plans. Adoption for these plans covering more than one entity, considered multi-employer plans, was recorded at the District level only and not reflected directly in the Bank's or Associations' Consolidated Financial Statements. Adoption for these plans covering one entity, considered single employer plans, was recorded directly in the Bank's or Associations' Consolidated Financial Statements as well as the District's Combined Financial Statements. The adoption of this guidance was reflected as an adjustment to AOCI of $115.5 million in the District's Combined Statement of Changes in Shareholders' equity at December 31, 2007.

FASB guidance requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. The guidance provided two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the District allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) was reflected as an adjustment to beginning 2008 unallocated retained earnings. As a result, the District decreased unallocated retained earnings and increased the pension liability by $5.0 million.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income (AOCI). Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2010, 2009 and 2008, $(9.4) million, $56.5 million and $(257.5) million has been recognized as a net debit, net credit and net debit, respectively, to AOCI to reflect these elements.

The funding status and the amounts recognized in the District's Combined Balance Sheets for all defined benefit retirement plans follows:

	Pension Benefits		
(dollars in thousands)	**2010**	**2009**	**2008**
Change in projected benefit obligation			
Projected benefit obligation at beginning of year	$ 661,966	$ 609,459	$ 525,810
Service cost	17,367	16,671	18,503
Interest cost	38,997	37,182	41,423
Plan amendments	1,081	814	–
Actuarial loss (gain)	51,401	23,066	59,104
Benefits paid	(30,314)	(25,323)	(35,349)
Other	(120)	97	(32)
Projected benefit obligation at end of year	$ 740,378	$ 661,966	$ 609,459
Change in plan assets			
Fair value of plan assets at beginning of year	$ 467,994	$ 359,782	$ 511,269
Actual return on plan assets	65,709	80,248	(147,083)
Employer contributions	47,763	53,608	31,451
Transfers	(377)	(321)	(506)
Benefits and premiums paid	(30,314)	(25,323)	(35,349)
Fair value of plan assets at end of year	$ 550,775	$ 467,994	$ 359,782
Funded status	$(189,603)	$(193,972)	$(249,677)
Amounts recognized in the balance sheet consist of:			
Pension assets	$ 623	$ 1,134	$ –
Pension liabilities	(190,226)	(195,106)	(249,677)
Net amount recognized	$(189,603)	$(193,972)	$(249,677)

The following represents the amounts included in accumulated other comprehensive income (pre-tax) at December 31:

	Pension Benefits		
(dollars in thousands)	**2010**	**2009**	**2008**
Net actuarial loss (gain)	$ 291,380	$295,317	$352,951
Prior service costs (credit)	9,640	10,480	11,375
Net transition obligation (asset)	–	–	–
Total amount recognized in AOCI	$ 301,020	$305,797	$364,326

The accumulated benefit obligation for all defined benefit pension plans was $648,439 at December 31, 2010 and $576,918 and $527,427 at December, 2009 and 2008, respectively.

Information for pension plans with benefit obligation in excess of plan assets follows:

	Pension Benefits		
(dollars in thousands)	**2010**	**2009**	**2008**
Aggregate PBO > FV plan assets			
Projected benefit obligation	$ 740,378	$ 661,966	$ 609,459
Fair value of plan assets	550,775	467,994	359,782
Aggregate ABO > FV plan assets			
Accumulated benefit obligation	$ 644,149	$ 574,132	$ 527,427
Fair value of plan assets	546,247	464,340	359,897

Components of net periodic benefit cost and other amounts for all defined benefit pension plans recognized in the District's other comprehensive income as of December 31 are as follows:

	Pension Benefits		
(dollars in thousands)	2010	2009	2008
Net periodic benefit cost			
Service cost	$ 17,367	$ 16,671	$ 14,803
Interest cost	38,997	37,182	33,141
Expected return on plan assets	(36,190)	(27,597)	(42,320)
Amortization of net (gain) loss	–	–	(12)
Amortization of prior service cost	1,921	1,709	2,163
Recognized net actuarial (gain) loss	26,197	28,371	4,682
Other	(120)	96	–
Net periodic benefit cost	$ 48,172	$ 56,432	$ 12,457
Other changes in plan assets and projected benefit obligation recognized in OCI			
Net actuarial loss (gain)	$ 22,260	$ (29,263)	$ 259,528
Amortization of net actuarial loss (gain)	(26,197)	(28,371)	(5,852)
Prior service cost (credit)	1,081	814	–
Amortization of prior service cost	(1,921)	(1,709)	(2,657)
Amortization of transition obligation (asset)	–	–	11
Net periodic benefit cost	$ (4,777)	$ (58,529)	$ 251,030
Total recognized in net periodic pension cost and OCI	$ 43,395	$ (2,097)	$ 266,551

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2011 are $24.1 million and $1.8 million, respectively.

Weighted average assumptions used to determine benefit obligations at December 31:

	Pension Benefits		
	2010	2009	2008
Discount rate	5.51%	6.04%	6.26%
Rate of compensation increase	4.54%	4.73%	5.33%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Pension Benefits		
	2010	2009	2008
Discount rate	6.04%	6.26%	6.45%
Expected long-term return on plan assets	8.01%	8.00%	8.46%
Rate of compensation increase	4.55%	4.73%	4.46%

The overall expected long-term rate of return on assets assumption is based on the target asset allocation for plan assets, capital markets forecasts for asset classes employed, and active management excess return expectations. The total return for bonds is based on an equilibrium yield assumed to be 6.00 percent for government bonds plus an additional 0.50 percent due to the exposure of corporate debt in an aggregate benchmark, for a total return of 6.50 percent. A 3.00 percent equity premium is added to arrive at the forecast for equity returns, both foreign and domestic. Equilibrium forecasts are used to reflect long-term expectations for the asset classes employed. To the extent asset classes are actively managed, an excess return premium is added.

Plan Assets

Plan assets are invested in a number of different asset classes, with each asset class further diversified though the engagement of a number of independent investment managers. This approach lowers the likelihood of a significant credit concentration. To further ensure that excessive risk concentrations are avoided, holdings of fund managers are monitored. There were no significant concentrations of credit risk in plan assets as of December 31, 2010. The target asset allocation is 45.00 percent U.S. equities, 20.00 percent non-U.S. equities, 5.00 percent real estate and 30.00 percent fixed income. The plans strategic asset allocation was determined by the Plan Fiduciary Committee after review and evaluation of an asset/liability study. Performance is monitored quarterly by both the Plan Fiduciary Committee and an outside pension consulting firm.
The weighted-average allowable asset allocations by category as of December 31 are as follows:

PLAN ASSETS	2010	2009	2008
Allowable Asset Category			
Equity securities	56.8%	66.6%	61.4%
Debt securities	39.9	29.4	30.4
Real Estate	2.8	3.0	7.1
Other	0.5	1.0	1.1
Total	100.0%	100.0%	100.0%

Target allocation for allowable asset categories for 2011 are as follows:

Allowable Asset Category	
Equity securities	62.3%-66.8%
Debt securities	28.0%-32.4%
Real Estate	2.7%-6.4%

The following table presents the fair values of the District's pension plan assets at December 31, 2010 by asset category. See Note 17 regarding a description of the three levels of inputs and the classification within the fair value hierarchy.

Fair Value Measurements at December 31, 2010	Level 1	Level 2	Level 3	Total Fair Value
Asset Category				
Cash and cash equivalents	$ 369	$ –	$ –	$ 369
Mutual funds:				
Domestic funds	–	126,082	–	126,082
International funds	–	151,123	–	151,123
Bond funds	–	1,348	–	1,348
Real estate equity funds	–	15,393	–	15,393
Fixed income funds	–	206,786	–	206,786
Equity securities funds	16,887	18,282	–	35,169
Fixed income securities:				
U.S. Treasuries	–	1,772	–	1,772
Corporate bonds	–	5,266	–	5,266
Mortgage-backed securities	–	3,723	–	3,723
Collateralized mortgage obligations	–	735	–	735
Foreign bonds	–	15	–	15
Total	$ 17,256	$ 530,525	$ –	$ 547,781

Fair Value Measurements at December 31, 2009	Level 1	Level 2	Level 3	Total Fair Value
Asset Category				
Cash and cash equivalents	$ 1,647	$ –	$ –	$ 1,647
Mutual funds:				
Domestic funds	–	195,299	–	195,299
International funds	–	86,900	–	86,900
Bond funds	–	1,079	–	1,079
Real estate equity funds	–	14,712	–	14,712
Fixed income funds	–	126,308	–	126,308
Equity securities funds	14,300	14,759	–	29,059
Fixed income securities:				
U.S. Treasuries	–	1,940	–	1,940
Corporate bonds	–	4,042	–	4,042
Mortgage-backed securities	–	3,250	–	3,250
Collateralized mortgage obligations	–	831	–	831
Foreign bonds	–	18	–	18
Total	$ 15,947	$ 449,138	$ –	$ 465,085

Plan assets also include a receivable for investments of $3.0 million and $2.9 million for 2010 and 2009, respectively.

Contributions

The District expects to contribute $49.0 million to the various pension plans in 2011.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits
2011	$ 34,585
2012	38,077
2013	40,888
2014	44,804
2015	47,248
Years 2016 — 2019	274,702

The funding status and the amounts recognized in the District's Combined Balance Sheets for all other postretirement benefit plans follows:

	Other Postretirement Benefits		
(dollars in thousands)	2010	2009	2008
Change in benefit obligation			
Benefit obligation at beginning of year	$ 129,627	$ 124,680	$ 114,511
Service cost	2,317	2,440	2,938
Interest cost	7,604	7,599	9,029
Plan participants' contributions	1,089	995	1,174
Actuarial loss (gain)	12,838	662	4,212
Benefits paid	(6,960)	(6,749)	(7,184)
Plan amendments/other	–	–	–
Benefit obligation at end of year	$ 146,515	$ 129,627	$ 124,680
Change in plan assets			
Fair value of plan assets at beginning of year	$ –	$ –	$ –
Actual return on plan assets	–	–	–
Plan participants' contributions	5,871	5,754	1,173
Employer contributions	1,089	995	6,011
Benefits and premiums paid	(6,960)	(6,749)	(7,184)
Fair value of plan assets at end of year	$ –	$ –	$ –
Funded status	$ (146,515)	$ (129,627)	$ (124,680)
Amounts recognized in the balance sheet consist of:			
Pension assets	$ –	$ –	$ –
Pension liabilities	(146,515)	(129,627)	(124,680)
Net amount recognized	$ (146,515)	$ (129,627)	$ (124,680)

The following represent the amounts included in accumulated other comprehensive income (pre-tax) at December 31:

	Other Postretirement Benefits		
(dollars in thousands)	2010	2009	2008
Net actuarial loss (gain)	$ 35,150	$ 23,481	$ 24,035
Prior service costs (credit)	(10,095)	(12,638)	(15,270)
Net transition obligation (asset)	91	125	158
Total amount recognized in AOCI	$ 25,146	$ 10,968	$ 8,923

Components of net periodic benefit cost and other amounts for all other postretirement benefits plans recognized in the District's other comprehensive income as of December 31 are as follows:

	Other Postretirement Benefits		
(dollars in thousands)	2010	2009	2008
Service cost	$ 2,317	$ 2,440	$ 2,350
Interest cost	7,604	7,599	7,223
Amortization of prior service cost	(2,544)	(2,631)	(2,787)
Amortization of transition obligation (asset)	34	34	34
Amortization of net (gain)loss	1,169	1,216	979
Net periodic benefit (income) cost	$ 8,580	$ 8,658	$ 7,799
Adjustment to retained earnings for 2008 due to change in measurement date	$ –	$ –	$ 1,949
Other changes in plan assets and projected benefit obligation recognized in OCI			
Net actuarial loss (gain)	$ 12,838	$ 663	$ 4,212
Amortization of net actuarial loss (gain)	(1,169)	(1,216)	(1,224)
Prior service cost (credit)	–	–	–
Amortization of prior service cost	2,544	2,631	3,484
Amortization of transition obligation (asset)	(34)	(34)	(42)
Net periodic benefit cost	$ 14,179	$ 2,044	$ 6,430
Total recognized in expenses and OCI	$ 22,759	$ 10,702	$ 16,178

The estimated prior service credit for the other postretirement benefit plans that will be amortized from accumulated other comprehensive income into periodic benefit cost during 2011 is $60 thousand.

Weighted average assumptions used to determine benefit obligations at December 31:

	Other Postretirement Benefits		
	2010	2009	2008
Discount rate	5.60%	6.00%	6.25%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Other Postretirement Benefits		
	2010	2009	2008
Discount rate	6.00%	6.25%	6.45%

For measurement purposes, annual rates of increase of 6.75 percent through 7.50 percent in the per capita cost of covered health benefits were assumed for 2010. The rates were assumed to step down to 5.00 percent in 2021, and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(dollars in thousands)	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost	$ 1,579	$ (1,286)
Effect on postretirement benefit obligation	20,917	(17,261)

Contributions

The District expects to contribute $7.2 million to other post retirement benefit plans in 2011.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Other Postretirement Benefits
2011	$ 7,208
2012	7,616
2013	8,018
2014	8,387
2015	8,824
Years 2016 — 2020	47,275

Note 14 — Related Party Transactions

In the ordinary course of business, the District enters into loan transactions with officers and directors of AgFirst or Associations, their immediate families and other organizations with which such persons may be affiliated. Such loans are subject to special approval requirements contained in the FCA regulations and were made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons.

Total loans to such persons at December 31, 2010, amounted to $367.6 million, as compared with $335.5 million and $283.5 million for the years ended December 31, 2009 and 2008, respectively. During 2010, 2009, and 2008, $305.5 million, $249.1 million, and $210.8 million of new loans were made and repayments totaled $273.4 million, $197.1 million, and $168.6 million, respectively. In the opinion of management, none of these loans outstanding at December 31, 2010 involved more than a normal risk of collectability, except as described below

Loans to three Association directors, totaling $59.0 million at December 31, 2010, were considered to involve more than a normal risk of collectability as determined by the respective Associations. Loans to one of the directors ($53.2 million) were through two corporate entities and were classified OAEM. Loans to another director ($1.6 million) were classified OAEM and loans to the third director ($4.2 million) were classified substandard. These classifications were primarily due to declining debt repayment capacity. All loans to these three directors are current and adequately secured.

Note 15 — Regulatory Enforcement Matters

During 2010, the FCA entered into written supervisory agreements with two District Associations whose combined assets totaled less than $800.0 million at December 31, 2010. The written supervisory agreements require those District Associations to take corrective actions with respect to certain areas of their operations, including capital, portfolio management, and asset quality. These enforcement actions will not have a significant impact on the Bank's or District's financial condition or results of operations. While the FCA took no other enforcement actions against the Bank or other District Associations during 2010, five additional District Associations were subject to special supervision by the FCA at December 31, 2010, subjecting them to additional regulatory scrutiny. Subsequent to year-end 2010, the FCA advised that an enforcement action in the form of a written supervisory agreement is forthcoming during the first quarter of 2011for an Association in the District currently subject to special supervision.

Note 16 — Commitments and Contingencies

The District has various contingent liabilities and commitments outstanding as discussed elsewhere in these notes to the Combined Financial Statements. While primarily liable for its portion of System bonds and notes, AgFirst is jointly and severally liable for the bonds and notes of the other System banks. The total bonds and notes of the System at December 31, 2010 were $188.773 billion.

In the normal course of business, the Bank and Associations may participate in credit related financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers. These financial instruments include standby letters of credit, various guarantees and commitments to extend credit.

The Bank and District participate in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2010, the Bank had outstanding $189.1 million of standby letters of credit issued on behalf of District and non-district customers, with expiration dates ranging from February 2011 to December 2015. The maximum potential amount of future payments the Bank may be required to make under these existing guarantees is $189.1 million.

A guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the guarantee commitment. The District has determined the fair value of the guarantee commitment based upon the fees to be earned over the life of the guarantee. The fair value is updated periodically to reflect changes in individual guarantee amounts and the remaining life to maturity of the individual guarantees in the District's inventory. At December 31, 2010, the District's inventory of standby letters of credit had a fair value of $3.3 million and was included in other liabilities.

The Bank also guarantees certain loans held by District Associations in the amount of $14.3 million expiring in less than one year. The notional amounts of these guarantees represent the maximum amount of exposure the Bank and the District Associations have related to these instruments as of December 31, 2010.

At December 31, 2010, $4.135 billion of commitments to extend credit were outstanding. Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these financial instruments have off-balance-sheet credit risk because their amounts could be drawn upon at the option of the borrower. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the loan collateral is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

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

Note 17 — Fair Value Measurement

As discussed in Note 2, effective January 1, 2008, the District adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and requires fair value disclosure for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. For the District, assets and liabilities consist primarily of investments available-for-sale, highly-liquid funds, derivative assets and liabilities, assets held in trust funds, standby letters of credit, impaired loans, other property owned, and collateral liabilities.

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

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

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

Level 1

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

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

Level 2

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

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

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

The District's Level 2 assets and liabilities at December 31, 2010 include derivative contracts and investments 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 December 31, 2010 include certain loans evaluated for impairment under FASB guidance, which have fair values based upon the underlying collateral as the loans were collateral-dependent loans. Since the value of the collateral, less estimated cost to sell, was less than the 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 December 31, 2010 also include the Bank's mortgage-related asset-backed investment portfolio and non-agency CMO investment portfolio. The underlying loans for the asset-backed securities are 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 December 31, 2010. The fair value for other property owned is based upon the collateral fair value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2010, 2009, and 2008 for each of the fair value hierarchy levels. Under FASB guidance, the requirement for a more detailed fair value disclosure of investments available-for-sale began in 2009.

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

	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments Available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	$ –	$ 3,857,159	$ –	$ 3,857,159
U.S. Govt. Agency MBS	–	2,573,375	–	2,573,375
Non-Agency CMOs	–	–	360,026	360,026
Commercial MBS	–	9,814	–	9,814
Asset-Backed Securities	–	38,431	47,465	85,896
Total Investments Available-for-sale	–	6,478,779	407,491	6,886,270
Commercial paper, Bankers' Acceptances, CD's & Others	–	86,690	–	86,690
Federal funds sold, securities purchased			–	
under resale agreements, and other	–	146,201	–	146,201
Interest rate swaps and			–	
other financial instruments	–	70,041	–	70,041
Assets held in trust funds	10,144	–	–	10,144
Total Assets	$ 10,144	$ 6,781,711	$ 407,491	$ 7,199,346
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ 229	$ –	$ 229
Collateral liabilities	–	14,065	–	14,065
Standby letters of credit	–	–	5,236	5,236
Total Liabilities	$ –	$ 14,294	$ 5,236	$ 19,530

	December 31, 2008			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments Available-for-sale	$ –	$ 6,183,596	$ 79,961	$ 6,263,557
Federal funds sold, securities purchased	–			
under resale agreements, and other	–	187,630	–	187,630
Interest rate swaps and other financial instruments	–	124,982	–	124,982
Assets held in trust funds	7,919	–	–	7,919
Total Assets	$ 7,919	$ 6,496,208	$ 79,961	$ 6,584,088
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ 469	$ –	$ 469
Collateral liabilities	–	7,963	–	7,963
Standby letters of credit	–	–	5,262	5,262
Total Liabilities	$ –	$ 8,432	$ 5,262	$ 13,694

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2010, 2009, and 2008. 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 District had no other transfers of assets or liabilities into or out of Level 1 or Level 2 during 2009 and the District had no transfers of assets or liabilities into or out of Level 1 or Level 2 during 2010.

	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2010	$ 47,465	$ 360,026	$ 5,236
Total gains or (losses) realized/unrealized:			
Included in earnings	(7,959)	(3,953)	–
Included in other comprehensive loss	10,928	38,717	–
Purchases, sales, issuances and settlements, net	(15,997)	(99,264)	(1,900)
Transfers in and/or out of level 3	–	–	–
Balance at December 31, 2010	$ 34,437	$ 295,526	$ 3,336

	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2009	$ 79,961	$ –	$ 5,262
Total gains or (losses) realized/unrealized:			
Included in earnings	(20,949)	(3,775)	–
Included in other comprehensive loss	27,955	46,108	–
Purchases, sales, issuances and settlements, net	(39,502)	(79,627)	(26)
Transfers in and/or out of level 3	–	397,320	–
Balance at December 31, 2009	$ 47,465	$ 360,026	$ 5,236

	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2008	$ 166,551	$ –	$ 5,205
Total gains or (losses) realized/unrealized:			
Included in earnings	(10,465)	–	–
Included in other comprehensive loss	(26,028)	–	–
Purchases, sales, issuances and settlements, net	(50,097)	–	57
Transfers in and/or out of level 3	–	–	–
Balance at December 31, 2008	$ 79,961	$ –	$ 5,262

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 December 31, 2010, 2009, and 2008 for each of the fair value hierarchy values are summarized below. Under FASB guidance, the requirement for fair value disclosure of nonfinancial instruments, such as other property owned, began in 2009.

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

	December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value	Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 292,624	$ 292,624	$ (144,942)
Other property owned	$ –	$ –	$ 79,237	$ 79,237	$ (5,515)

	December 31, 2008				
	Level 1	Level 2	Level 3	Total Fair Value	Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 230,355	$ 230,355	$ (100,874)

Note 18 — Disclosures about Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the District's financial instruments at December 31, 2010, 2009, and 2008. 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.

	December 31, 2010		December 31, 2009		December 31, 2008	
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:						
Loans, net of allowance	$23,026,427	$23,063,218	$23,198,558	$23,280,763	$23,124,350	$23,345,531
Derivative assets	$ 62,245	$ 62,245	$ 70,041	$ 70,041	$ 124,982	$ 124,982
Cash & cash equivalents	$ 1,463,700	$ 1,463,700	$ 981,041	$ 981,041	$ 316,010	$ 316,010
Investment securities	$ 8,279,655	$ 8,323,378	$ 8,463,199	$ 8,472,095	$ 8,186,402	$ 8,198,816
Other investments	$ 305,959	$ 319,168	$ 367,461	$ 391,103	$ 410,249	$ 429,791
Assets held in trust funds	$ 11,511	$ 11,511	$ 10,144	$ 10,144	$ 7,919	$ 7,919
Financial liabilities:						
Bonds and notes	$28,582,672	$28,485,071	$28,976,336	$28,995,842	$28,406,739	$28,616,523
Derivative liabilities	$ 8,781	$ 8,781	$ 229	$ 229	$ 469	$ 469

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

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

   For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. Fair value 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 17.

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

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

F. **Derivative Instruments:** The fair value of derivatives is the estimated amount to be received or paid to replace the instruments at the reporting date, considering current and projected interest rates. Where actively quoted market prices do not exist, estimated fair values are determined through internal market valuation models. See additional information in Note 17.

G. **Assets Held In Trust Funds:** See Note 17 for discussion of estimation of fair value for these assets.

Note 19 — Derivative Financial Instruments and Hedging Activities

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

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

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

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

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

Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ 1,373	$ –
Additions	50	445
Maturities/amortization	(288)	–
Terminations	–	–
Balance at end of period	$ 1,135	$ 445

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

To minimize the risk of credit losses, the District deals with counterparties that have an investment grade credit rating from a major rating agency, and also monitors the credit standing of and levels of exposure to individual counterparties. The estimated gross credit risk exposure at December 31, 2010 of $62.2 million was with seven counterparties and represented approximately 5.48 percent of the total notional amount of interest rate swaps. The District held $18.3 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The District does not anticipate nonperformance by any of these counterparties. The estimated gross credit risk exposure at December 31, 2009 of $70.0 million was with eight counterparties and represented approximately 5.08 percent of the total notional amount of interest rate swaps. The District held $14.1 million of interest-bearing cash collateral at December 31, 2009, posted by one counterparty related to these swaps. The District typically enters into master agreements that contain netting provisions. These provisions allow the District to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties. At December 31, 2010, the District had not posted collateral with respect to any of these arrangements.

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

Fair-Value Hedges

For derivative instruments designated as a fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the year ended December 31, 2010 was ($7.8) million, while the amount of the gain on the Systemwide Debt Securities was $7.8 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

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

Fair Values of Derivative Instruments

The following tables represent the fair value of derivative instruments at December 31, 2010 and 2009:

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

(dollars in thousands)	**Balance Sheet Classification - Assets**	**12/31/09 Fair Value**	**Balance Sheet Classification - Liabilities**	**12/31/09 Fair Value**
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$70,041	Other Liabilities	$229
Total		$70,041		$229

The following tables set forth the amount net gain (loss) recognized in the Statement of Income for the years ended December 31, 2010 and 2009.

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

(dollars in thousands)	Location of Gain or (Loss) Recognized in the Statement of Income	2009 Amount of Gain or (Loss) Recognized in the Statement of Income
Derivatives – Fair Value Hedging Relationships:		
Receive-fixed swaps	Noninterest Income	$469
Total		$469

As of December 31, 2010, the District had committed to purchase $444.5 million of when issued GNMA securities all settling by March 2011. These commitments are considered (cash flow hedging) derivatives in the form of forward contracts. The market value of these securities had declined $8.8 million between the time the Bank had committed to purchase the securities and year-end. This amount, which represents the effective portion of the District's forward contracts, is included as a debit in Other Comprehensive Income (OCI) and as a credit in Other Liabilities as firm commitments in the District's Combined Balance Sheet at December 31, 2010. There were no amounts of gains or losses reclassified from OCI into income from forward contracts during 2010 or 2009.

Note 20 — Additional Derivative Financial Instruments and Other Financial Instruments Disclosure

The table below provides information about derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information below represents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information below represents the notional amounts and weighted average interest rates by expected maturity dates.

December 31, 2010 *(dollars in millions)*	**Maturities of 2010 Derivative Products and Other Financial Instruments** 2011	2012	2013	2014	2015	2016 and after	Total	Fair Value
Bonds and Notes:								
Fixed rate	$ 6,642	$ 3,553	$ 3,144	$ 1,727	$ 1,420	$ 4,102	$ 20,588	$ 20,545
Weighted average interest rate	0.95%	0.98%	1.30%	1.74%	2.13%	3.10%	1.58%	
Variable rate	5,586	2,058	256	–	14	23	7,937	7,883
Weighted average interest rate	0.26%	0.27%	0.63%	–%	0.12%	0.11%	0.28%	
Derivative Instruments:								
Receive fixed swaps								
Notional value	$ 600	$ 175	$ 110	$ –	$ 100	$ 150	$ 1,135	$ 62
Weighted average receive rate	4.10%	3.07%	3.02%	–%	5.01%	5.10%	4.05%	
Weighted average pay rate	0.63%	1.73%	2.68%	–%	3.99%	4.34%	1.79%	
Total notional value	$ 600	$ 175	$ 110	$ –	$ 100	$ 150	$ 1,135	$ 62
Total weighted average rates on swaps:								
Receive rate	4.10%	3.07%	3.02%	–%	5.01%	5.10%	4.05%	
Pay rate	0.63%	1.73%	2.68%	–%	3.99%	4.34%	1.79%	

The total notional value and fair value of forward contracts at December 31, 2010 was $445 million and $(9) million, respectively. The forward contracts expire in 2011.

Note 21 — Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2010, 2009, and 2008 follow:

	2010				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 255,665	$ 256,835	$ 263,217	$ 275,307	$ 1,051,024
Provision for (reversal of allowance for) loan losses	18,192	38,799	43,503	37,734	138,228
Noninterest income (expense), net	(59,091)	(94,321)	(90,317)	(116,521)	(360,250)
Provision (benefit) for income taxes	103	(75)	580	59	667
Net income	$ 178,279	$ 123,790	$ 128,817	$ 120,993	$ 551,879

	2009				
	First	Second	Third	Fourth	Total
Net interest income	$ 214,149	$ 228,037	$ 237,317	$ 257,936	$ 937,439
Provision for (reversal of allowance for) loan losses	36,927	61,872	50,071	14,023	162,893
Noninterest income (expense), net	(102,452)	(103,617)	(90,560)	(109,160)	(405,789)
Provision (benefit) for income taxes	815	276	2,058	741	3,890
Net income	$ 73,955	$ 62,272	$ 94,628	$ 134,012	$ 364,867

	2008				
	First	Second	Third	Fourth	Total
Net interest income	$ 193,258	$ 198,050	$ 210,501	$ 216,055	$ 817,864
Provision for (reversal of allowance for) loan losses	20,077	16,227	18,736	65,983	121,023
Noninterest income (expense), net	(80,243)	(80,596)	(71,778)	(100,639)	(333,256)
Provision (benefit) for income taxes	203	405	(752)	209	65
Net income	$ 92,735	$ 100,822	$ 120,739	$ 49,224	$ 363,520

Note 22 — Bank Only Financial Data

Condensed financial information of the Bank follows:

Balance Sheet

	December 31,		
(dollars in thousands)	2010	2009	2008
Cash, cash equivalents and investment securities	$ 9,503,711	$ 9,165,093	$ 8,270,160
Loans			
To District Associations	14,778,448	14,890,794	14,997,151
To others	6,126,717	6,436,525	6,242,179
Total loans	20,905,165	21,327,319	21,239,330
Less: allowance for loan losses	14,873	32,292	44,565
Net loans	20,890,292	21,295,027	21,194,765
Other assets	387,563	407,424	446,126
Total assets	$ 30,781,566	$ 30,867,544	$ 29,911,051
Bonds and notes	$ 28,325,569	$ 28,694,013	$ 28,053,023
Mandatorily redeemable preferred stock	225,000	225,000	225,000
Other liabilities	328,216	368,201	391,936
Total liabilities	28,878,785	29,287,214	28,669,959
Perpetual preferred stock	400,000	400,000	400,000
Capital stock and participation certificates	417,333	438,707	434,929
Retained earnings	1,053,119	864,827	763,355
Accumulated other comprehensive income (loss)	32,329	(123,204)	(357,192)
Total shareholders' equity	1,902,781	1,580,330	1,241,092
Total liabilities and shareholders' equity	$ 30,781,566	$ 30,867,544	$ 29,911,051

Statement of Income

	Year Ended December 31,		
(dollars in thousands)	2010	2009	2008
Interest income	$ 953,520	$ 1,031,563	$ 1,333,509
Interest expense	382,274	541,902	966,988
Net interest income	571,246	489,661	366,521
Provision for (reversal of allowance for) loan losses	40,002	46,648	43,342
Net interest income after provision for loan losses	531,244	443,013	323,179
Noninterest income	18,589	7,401	4,874
Noninterest expenses			
Salaries and employee benefits	43,105	40,960	30,655
Occupancy and equipment	15,675	14,720	14,957
Insurance Fund premium	5,147	20,605	12,153
Other operating expenses	21,401	21,873	22,174
Called debt expense	38,420	36,531	26,652
Corresponding lending servicing expense	8,413	6,303	4,017
Other noninterest expenses	277	279	278
Total noninterest expenses	132,438	141,271	110,886
Net income	$ 417,395	$ 309,143	$ 217,167

Note 23 – District Merger Activity

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

Prior to the merger, those Associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged Association. This agreement relates only to a finite pool of high risk assets of the merged Association existing at the merger date, which had a net total of approximately $250 million. Through this agreement, the merged Association will absorb substantial losses on these high risk assets in advance of the Bank providing financial assistance. This financial "safety net" from the Bank does not include losses that are sustained outside of the high risk asset pool. The agreement provides protection to the Bank, such as limitation on the Association's ability to make patronage distributions and certain other restrictions which are imposed if the merged Association's capital levels fail to meet minimum established levels. Assistance under the agreement, if any, is not expected to have a material impact on the financial condition of the Bank or District.

Note 24 - Subsequent Events

The District has evaluated subsequent events and, except for the regulatory enforcement matters discussed in Note 15 above and the merger activity discussed in Note 23 above, has determined there are no other subsequent events requiring disclosure through March 14, 2011, which is the date the financial statements were issued.