AgFirst Farm Credit Bank

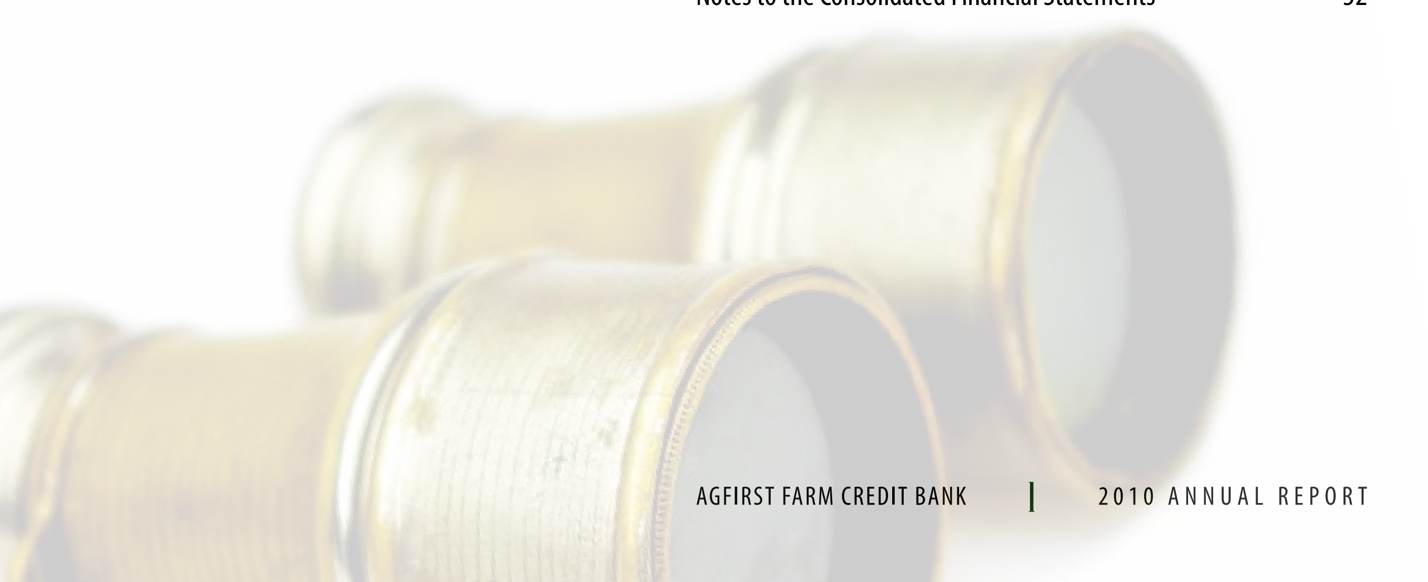
Mission Focused

2010 ANNUAL REPORT

AGFIRST FARM CREDIT BANK'S MISSION

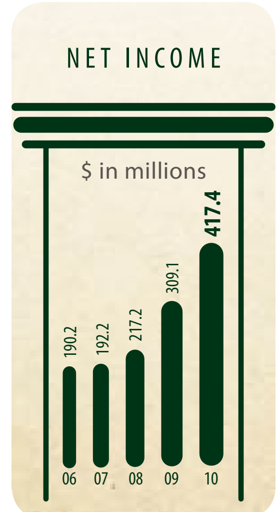
To enable our members to be the lender of choice to agriculture and rural America.

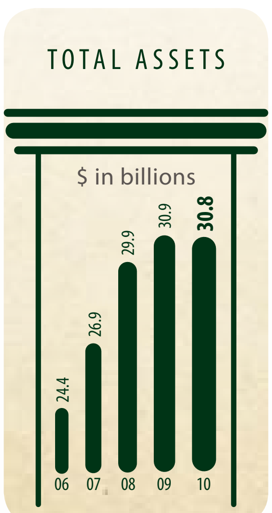
Contents

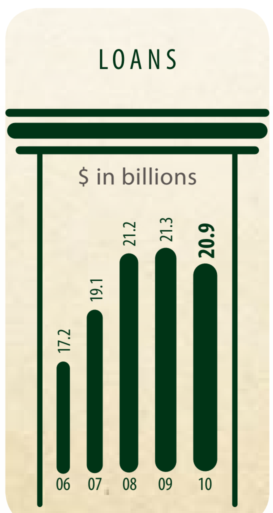


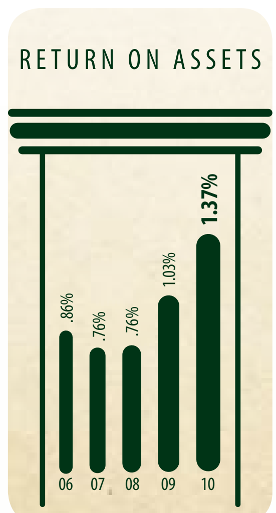
Five-Year Summary

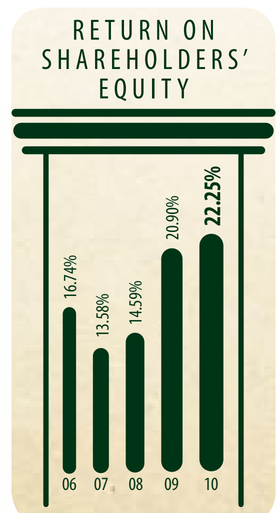
of Selected Consolidated Financial Data

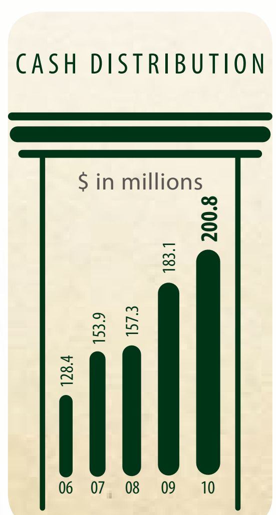


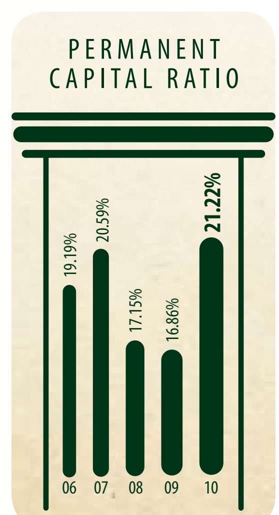










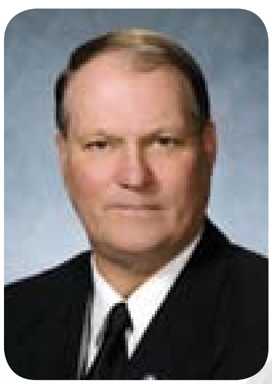


Five-Year Summary of Selected Consolidated Financial Data

(dollars in thousands)	2010	2009	2008	2007	2006
	As of or for the year ended December 31,				
Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 1,427,033	$ 938,884	$ 277,003	$ 558,770	$ 582,764
Investment securities	8,076,678	8,226,209	7,993,157	6,908,797	6,358,682
Loans	20,905,165	21,327,319	21,239,330	19,114,517	17,152,337
Less: allowance for loan losses	14,873	32,292	44,565	2,816	463
Net loans	20,890,292	21,295,027	21,194,765	19,111,701	17,151,874
Other property owned	39,719	25,909	540	—	—
Other assets	347,844	381,515	445,586	347,353	318,844
Total assets	$ 30,781,566	$ 30,867,544	$ 29,911,051	$ 26,926,621	$ 24,412,164
Obligations with maturities of one year or less	$ 12,557,028	$ 14,306,748	$ 14,037,745	$ 11,353,878	$ 10,005,004
Obligations with maturities greater than one year	16,096,757	14,755,466	14,407,214	13,890,262	13,001,073
Mandatorily redeemable preferred stock	225,000	225,000	225,000	225,000	225,000
Total liabilities	28,878,785	29,287,214	28,669,959	25,469,140	23,231,077
Perpetual preferred stock	400,000	400,000	400,000	400,000	150,000
Capital stock and participation certificates	417,333	438,707	434,929	364,759	313,353
Retained earnings					
Allocated	871	965	805	705	—
Unallocated	1,052,248	863,862	762,550	730,724	715,753
Accumulated other comprehensive income (loss)	32,329	(123,204)	(357,192)	(38,707)	1,981
Total shareholders' equity	1,902,781	1,580,330	1,241,092	1,457,481	1,181,087
Total liabilities and shareholders' equity	$ 30,781,566	$ 30,867,544	$ 29,911,051	$ 26,926,621	$ 24,412,164
Consolidated Statement of Income Data					
Net interest income	$ 571,246	$ 489,661	$ 366,521	$ 260,878	$ 227,512
Provision for (reversal of allowance for) loan losses	40,002	46,648	43,342	2,481	(7,337)
Noninterest income (expense), net	(113,849)	(133,870)	(106,012)	(66,188)	(44,656)
Net income	$ 417,395	$ 309,143	$ 217,167	$ 192,209	$ 190,193
Consolidated Key Financial Ratios					
Rate of return on average:					
Total assets	1.37%	1.03%	0.76%	0.76%	0.86%
Total shareholders' equity	22.25%	20.90%	14.59%	13.58%	16.74%
Net interest income as a percentage of average earning assets	1.96%	1.66%	1.29%	1.04%	1.04%
Net (chargeoffs) recoveries to average loans	(0.276)%	(0.278)%	(0.008)%	(0.001)%	(0.015)%
Total shareholders' equity to total assets	6.18%	5.12%	4.15%	5.41%	4.84%
Debt to shareholders' equity (:1)	15.18	18.53	23.10	17.47	19.67
Allowance for loan losses to loans	0.07%	0.15%	0.21%	0.015%	0.003%
Permanent capital ratio	21.22%	16.86%	17.15%	20.59%	19.19%
Total surplus ratio	21.19%	16.83%	17.11%	20.54%	19.14%
Core surplus ratio	13.79%	9.85%	10.43%	13.04%	11.46%
Collateral ratio	106.44%	105.66%	105.56%	106.02%	105.28%
Net Income Distribution					
Cash distributions	$ 200,772	$ 183,116	$ 157,278	$ 153,894	$ 128,440
Perpetual preferred stock dividend	27,413	27,413	27,413	19,501	10,950

Message

from the Chairman of the Board and the Chief Executive Officer



M. Wayne Lambertson
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

"We believe that the working relationships we have within our District are a source of strength that is unique in the Farm Credit System."

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 Bank had record earnings of $417 million in 2010, and we were able to return $201 million in cash patronage refunds to our Association owners and other financial partners.”

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 Bank had record earnings of $417 million in 2010, and we were able to return $201 million in cash patronage to our Association 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
M. Wayne Lambertson
Chairman of the Board

F. A. Lowrey
F. A. Lowrey
Chief Executive Officer

March 14, 2011

AgFirst Profile and Business Model

AgFirst is a member of the Farm Credit System, the largest agricultural lending organization in the United States. As one of the five Banks in the Farm Credit System, we provide funding and services to 20 affiliated Agricultural Credit Associations in 15 eastern states and Puerto Rico. Our Associations, in turn, provide financing to 80,000 farmers, ranchers, rural homeowners, and agribusinesses.

Our primary business is providing funding to our affiliated Associations. We also provide operational and technology support and manage credit portfolio, interest-rate, and other risks on a District-wide basis.

AgFirst exists to serve and provide value to its affiliated Associations and their borrowers. We refer to the way we go about providing services and adding value as the "AgFirst Business Model." The foundation of our model is the strong relationships we have with our Association boards and management teams.

We strive to operate the Bank in a profitable and highly efficient manner so that we can deliver competitive funding and services to our Associations. Our model provides our Associations with the operational infrastructure of a major financial institution. This enables our Associations, both large and small, to meet the needs of their customers in an effective manner.

An integral part of our business model is the way we manage our balance sheet and operate other lines of business, in addition to funding and directly supporting our Associations. These lines of business allow us to generate earnings streams which help offset our operating costs and ultimately lower the Associations' costs of borrowing.

"AgFirst exists to serve and provide value to its affiliated Associations and their borrowers."

Benefits of Association Ownership and Investment in AgFirst

AgFirst is a federated cooperative; that is, we are a cooperative owned by other cooperatives, our 20 affiliated Associations. The Associations are, in turn, owned by their borrowers, who are primarily farmers.

Our Associations benefit from their ownership of AgFirst in two important ways. By delivering funding and services to all 20 Associations, AgFirst achieves economies of scale that could not be realized by the Associations individually. In addition, AgFirst shares its profits with its Associations through patronage refunds, which reduce the Associations' cost of borrowing and, ultimately, their borrowers' cost of borrowing.

Another AgFirst objective is to capitalize the Bank primarily through retained earnings, supplemented as necessary with preferred stock, rather than direct Association stockholder investments. We have gradually reduced the Association investment requirement in recent years, from 5.25 percent of direct notes outstanding in 1993 to 1.75 percent in 2006, where it remains today. The earnings provided by our other lines of business help AgFirst meet this objective.

Appropriately leveraging our Associations' capital investment in the Bank is an important component of our business model. Our business model helps to ensure strong returns on that capital as a result of the income from our secondary business lines. Further, our direct note pricing gives credit to Associations for their investment in the Bank.

Funding

Like all Banks in the Farm Credit System, AgFirst obtains its funds primarily through the sale of notes and bonds to the investing public. Because the System has the capacity to issue large volumes of highly rated securities across a broad range of maturities and pricing structures, the Associations we serve enjoy a dependable and competitively priced source of funding.

AgFirst absorbs most of the interest-rate risk associated with the various loan products offered by our affiliated Associations, including both variable and adjustable interest rate products tied to various indices and fixed-rate products. This gives Associations the flexibility to offer a full array of loan and other financial products. AgFirst uses callable debt, interest-rate swaps, and other funding techniques to maintain a conservative risk profile.

Other Lines of Business

Our primary focus is being a wholesale lender and a first-class service provider for our affiliated Associations. However, we actively seek to offset our operating expenses through additional earnings streams. These other lines of business ultimately provide direct value to the Bank's stockholders.

- AgFirst's Capital Markets portfolio began as a means to accommodate Association over-lines on large credits. It still provides that benefit to Associations. However, its purpose has expanded over time. It now provides both the Bank and Associations with a resource to buy and sell loan assets that can be used to manage capital utilization and credit portfolio risk issues such as commodity concentration.

"The foundation of our model is the strong relationships we have with our Association boards and management teams."

AgFirst's Capital Markets Unit manages this portfolio and provides Associations with expertise in large-loan lending and servicing. This partnership gives Associations an important tool for serving their individual markets and facilitates their access to a wider market.

The Capital Markets portfolio generates significant levels of income that benefit the Bank's stockholders. Earnings from the Capital Markets portfolio are used to pay patronage or servicing fees on Capital Markets loans. The portfolio's excess net income is available for general patronage to the Bank's stockholders, to reduce the costs of the Bank's operations, or to provide an additional means for the Bank to build capital for the benefit of stockholders.

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. As a financial intermediary, we utilize our Capital Markets portfolio to help individual Associations diversify their loan portfolios and fully serve their largest customers. We emphasize to Association management teams our commitment to purchase quality loans they originate that may exceed the size they can safely hold or which pose excessive concentration risk. This enables Associations to transfer portfolio risks to AgFirst, where they can be managed effectively across the District. Our Associations can then concentrate on the specific needs of their creditworthy members with confidence, knowing that the Bank will be a reliable partner.

- The Bank's Correspondent Lending Unit (CLU) buys individual rural home mortgages from originators. Most of its volume is originated by Associations within our District, but the CLU also purchases loans from other Farm Credit Associations and other originators throughout the United States. The CLU benefits Associations by enabling them to serve a competitive market and providing them the option to sell low-margin loans off of their books, while generating fee income. The Bank is able to create economies of scale from larger volume to keep its operating costs low and generate a profit on the portfolio. This is a non-patronage line of business, with the net earnings directly benefiting the Bank's stockholders.
- AgFirst's investment portfolio is primarily a liquidity management tool, but it also generates net income for the Bank. In managing its investment portfolio, AgFirst concentrates on investments with low credit and price risk. Despite the market difficulties experienced since 2008, the level of credit risk has been limited by maintaining a high percentage of the portfolio in U.S. Government- or U.S. Agency-guaranteed investments. As with the other portfolios, the net earnings from investments flow into capital and directly benefit the Bank's stockholders.

These additional lines of business are critical to the AgFirst business model. They provide an expanded line of products and services to Associations and generate additional earnings that offset the Bank's operating costs, flow into capital, and are used to pay patronage to Associations, all of which ultimately benefit Associations by reducing their costs of borrowing and Bank capital investment requirements.

"We refer to the way we go about providing services and adding value as the AgFirst Business Model.'"

Services

AgFirst primarily uses a "bundled" approach in providing core services to its affiliated Associations. Core services are available to all affiliates, with the cost shared by them through the direct note pricing. This approach enables AgFirst to serve large and small Associations and provide the same standard of care to all Associations, regardless of size. In addition to these bundled services, AgFirst offers additional—or "expanded"—services, usually at the Bank's incremental cost, to the Associations that wish to use them. These expanded services help create further efficiencies in their operations.

Keeping Connected

We are proud of the close relationships we maintain with our affiliated Associations. We assign a Relationship Manager (RM) to each Association. The RM serves as an account manager and liaison between the Bank and Association. The RM is responsible for servicing the Association's direct note with the Bank, assessing the Association's risk-bearing capacity, and facilitating communications between the Association and all functions within the Bank. In addition, RMs are available to assist Associations to market and structure large, complex loans upon request.

Association CEOs and AgFirst senior staff meet as a group on a regular basis to discuss topics of common concern. At those meetings, CEOs often pass along ideas and suggestions to AgFirst management and their fellow CEOs, and AgFirst provides updates on Bank and System issues, as well as technology and other projects that impact Association operations.

In the AgFirst business model, the Bank and Associations remain independent of one another, but work together to achieve their respective goals and objectives and plan for future needs.

Core Services

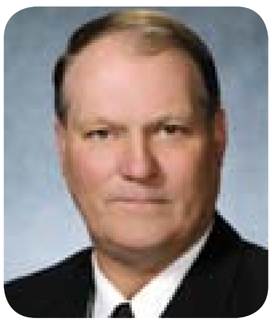
- Loan Origination, Aggregation, and Customer Relationship Management Systems
- Loan Accounting Systems
- Financial Reporting and Accounting Systems
- Marketing
- Compliance Support
- Human Resource Consulting

Expanded Services

- Accounts Payable/Fixed Assets
- Participation Loan Accounting
- High-Risk Assets Accounting
- Payroll
- Technology Infrastructure Management

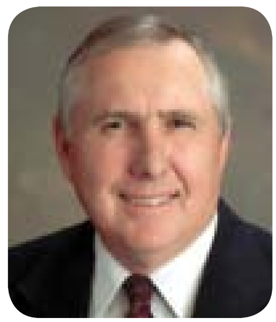
Board of Directors

Gary L. Alexander



M. Wayne Lambertson
Chairman

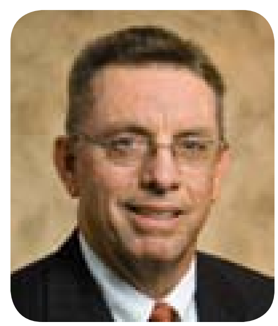
Robert H. Spiers, Jr.
Vice Chairman



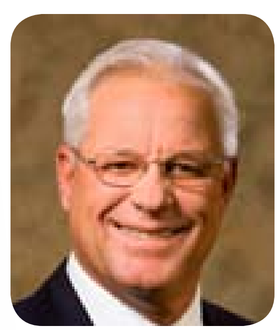
Paul M. House

Thomas W. Kelly

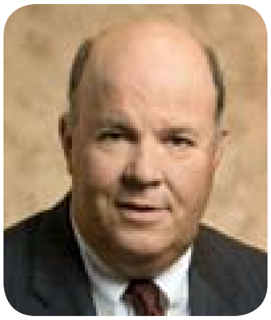
James L. May

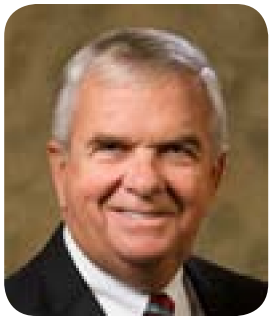


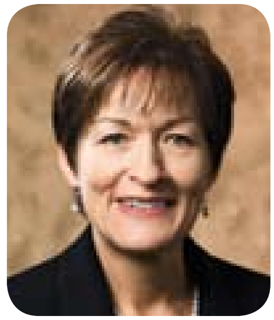
Bobby E. McCollum, Jr.

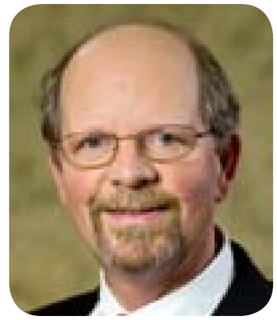


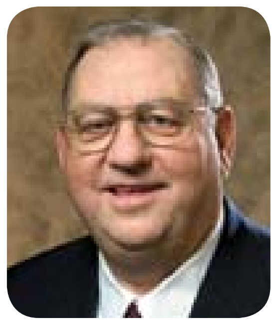
Jimmy D. Poston

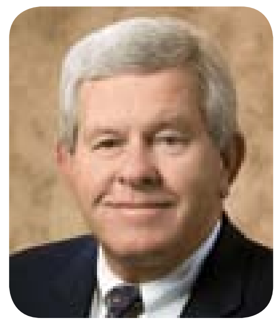

Jack W. Bentley, Jr.

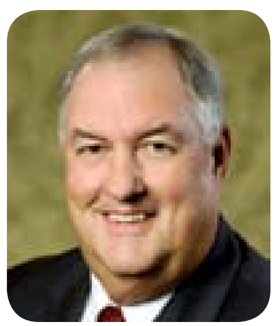

James C. Carter, Jr.

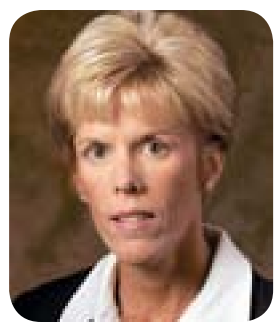

Bonnie V. Hancock


Dale R. Hershey


Lyle Ray King


S. Alan Marsh

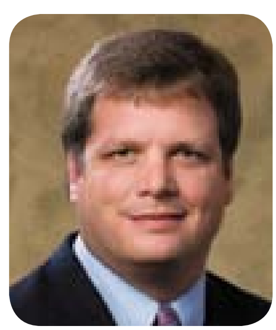

James M. Norsworthy III


Katherine A. Pace


Walter L. Schmidlen, Jr.


Robert G. Sexton


William H. Voss


J. Mark Wheeler

Report of Management

The accompanying Consolidated 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 Consolidated 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 Consolidated 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 maintains 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.

AgFirst 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 AgFirst Code of Ethics may be viewed on the Bank's website at www.agfirst.com.

The Consolidated Financial Statements have been examined by independent auditors, whose report appears elsewhere in this Annual Report. The Bank is also subject to examination by the Farm Credit Administration.

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

M. Wayne Lambertson
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

Charl L. Butler
Senior Vice President and Chief Financial Officer

March 14, 2011

Report on Internal Control

Over Financial Reporting

The Bank's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Bank's 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'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 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, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Bank, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its Consolidated Financial Statements.

The Bank'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 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 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

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

(as of December 31, 2010)

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. 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 certain 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 serve one or more of either 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-term 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 (District). The Associations are structured as cooperatives in which 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 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 changed its name to Farm Credit of Florida, ACA, reducing the number of Associations in the District to twenty.

The following commentary reviews the Consolidated Financial Statements of condition and results of operations of AgFirst as of and for the years ended December 31, 2010, 2009, and 2008. This information should be read in conjunction with the accompanying Consolidated Financial Statements, the Notes to the Consolidated Financial Statements and other sections of this Annual Report. The Consolidated 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 Consolidated Financial Statements for a discussion of the operations of AgFirst.

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 AgFirst's expectations and predictions due to a number of risks and uncertainties, many of which are beyond AgFirst's control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial markets, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise, 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 AgFirst's business. References to the USDA information in this section refer to the entire U.S. agricultural market and are not limited to AgFirst.

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 due primarily to an increase in livestock receipts of $21.7 billion. The USDA forecasts 2011 farmer's 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, AgFirst'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, AgFirst'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 AgFirst's significant accounting policies is critical to the understanding of the Bank'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 Consolidated 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 Bank'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 Bank may also establish a general allowance for loan losses based on management's assessment of risk inherent in the loans in the Bank'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 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 Bank'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 Bank'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

AgFirst's loan portfolio consists primarily of direct loans to District Associations (Direct Notes), loan participations/syndications purchased, Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to Other Financing Institutions (OFIs) as shown below at December 31:

AgFirst Loan Portfolio
(dollars in thousands)

	2010		2009		2008	
Direct Notes	$ 14,778,448	70.69%	$ 14,890,793	69.82%	$ 14,997,151	70.61%
Participations/Syndications Purchased, net	4,163,794	19.92	4,758,466	22.31	4,925,744	23.19
Correspondent Lending	1,957,923	9.37	1,671,060	7.84	1,309,285	6.16
Loans to OFIs	5,000	0.02	7,000	0.03	7,150	0.04
Total	$ 20,905,165	100.00%	$ 21,327,319	100.00%	$ 21,239,330	100.00%

The diversification of AgFirst's loan volume by type for each of the past three years at December 31 is shown below:

(dollars in thousands)	2010		2009		2008	
Direct Notes	$ 14,778,448	70.69 %	$ 14,890,794	69.82 %	$ 14,997,151	70.61 %
Rural Residential Real Estate	1,831,928	8.76	1,548,829	7.26	1,188,843	5.60
Production and Intermediate-Term	1,486,639	7.11	1,708,861	8.01	1,739,357	8.19
Real Estate Mortgage	1,401,285	6.70	1,686,948	7.91	1,615,851	7.61
Processing and Marketing	712,171	3.41	773,263	3.63	893,794	4.21
Energy	296,213	1.42	304,517	1.43	220,361	1.04
Loans to Cooperatives	162,167	0.78	181,336	0.85	276,987	1.30
Communication	113,021	0.54	104,208	0.49	155,813	0.73
Farm-Related Business	61,801	0.30	59,173	0.28	78,324	0.37
Water/Waste Disposal Loans	28,000	0.13	28,000	0.13	28,000	0.13
Lease Receivables	6,331	0.03	9,121	0.04	11,751	0.06
Loans to OFIs	5,000	0.02	7,000	0.03	7,150	0.03
Other (including Mission Related)	22,161	0.11	25,269	0.12	25,948	0.12
Total	$ 20,905,165	100.00 %	$ 21,327,319	100.00 %	$ 21,239,330	100.00 %

Total loans outstanding were $20.905 billion at December 31, 2010, a decrease of $422.2 million, or 1.98 percent, compared to total loans outstanding at December 31, 2009. Loans outstanding at the end of 2009 had increased $88.0 million, or 0.41 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. 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 Bank's chartered territory, particularly in Florida. Beginning in 2008, real estate values declined, population growth slowed, and housing foreclosures increased in Florida. Other areas of the District experienced a less severe reduction in real estate values.

The 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 Bank'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.

The following table presents selected statistics related to the credit quality of AgFirst loans including accrued interest at December 31:

AgFirst Total Loans Credit Quality	2010	2009	2008
Acceptable	85.21%	86.60%	95.57%
OAEM	10.00	9.48	3.44
Adverse*	4.79	3.92	0.99
Total	100.00%	100.00%	100.00%

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

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

Direct Notes

AgFirst's primary line of business is to provide funding to District Associations. Each Association is a federally chartered instrumentality of the United States and, like the Bank, is regulated by the Farm Credit Administration (FCA). AgFirst has a revolving line of credit, referred to as a Direct Note, in place with each of the Associations. Each of the Associations funds its lending and general corporate activities primarily by borrowing under its Direct Note. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations. Each GFA contains minimum borrowing base margin, capital, and earnings requirements that must be maintained by the Association. Refer to Note 1, *Organization and Operations*, in the Notes to the Consolidated Financial Statements for further discussion.

At December 31, 2010, total Direct Note volume outstanding was $14.778 billion, a decrease of $112.3 million, or 0.75 percent, compared to December 31, 2009. Direct Note volume of $14.891 billion at December 31, 2009, decreased $106.4 million, or 0.71 percent, compared to December 31, 2008. Weak customer loan demand at the Associations and a generally more conservative credit approach were the primary reasons for the decline in growth. Also, in some cases, business development resources have been redirected to problem asset management. However, over the second half of 2010, Direct Note volume has shown some stabilization.

For 2010, 2009, and 2008, respectively, earnings for the combined Associations totaled $330.1 million, $238.1 million, and $381.8 million, producing an average return on assets of 1.83 percent, 1.31 percent, and1.69 percent, and an average return on equity of 10.99 percent, 8.44 percent, and 11.06 percent.

AgFirst provides each Association with core operating systems and support, including a loan origination system, loan accounting and servicing systems, general ledger and related financial accounting systems, and a human resources/payroll system. With AgFirst providing such systems and other services, the Associations are able to achieve operating efficiencies ordinarily afforded to much larger organizations. In addition, having common systems supported by AgFirst provides an opportunity to automate the AgFirst/Association lending process. One of the most significant advantages of this is a match-funding mechanism that automatically creates Direct Note advances that match the repricing and maturity characteristics of each underlying Association loan. The Association's interest rate risk and operational risks are significantly reduced by employing these systems.

Ultimately, the Associations' ability to repay their Direct Note obligations is significantly dependent upon the repayment of loans made to their borrowers. Accordingly, AgFirst's direct and indirect credit exposure depends upon the creditworthiness of both the Associations that are direct borrowers and the underlying borrowers of the Associations whose loans, as well as the other assets of the Associations, secure their Direct Notes.

AgFirst continually monitors the risk-bearing capacity of each Association through a variety of mechanisms, including testing of the reliability of the Association's risk ratings assigned to each of their loans, periodic meetings with the Association's Management and Board, regular formalized risk assessments, and prior-approval of loan transactions that exceed the Association's delegated lending authority as determined by AgFirst.

All Associations are subject to an annual audit by independent auditors and periodic examination by FCA. Each Association is required by regulatory mandate to perform continuous internal credit, appraisal, and audit reviews. Litigation in which Associations are involved is typically loan related and poses no material threat to their viability.

The following table presents selected statistics related to the credit quality of the Direct Note portfolio at December 31:

AgFirst Direct Note Credit Quality	2010	2009	2008
Acceptable	83.96%	86.13%	96.99%
OAEM	11.28	11.26	3.01
Adverse*	4.76	2.61	0.00
Total	100.00%	100.00%	100.00%

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

As of December 31, 2010, fourteen of the twenty-two District Associations' Direct Notes, representing 83.96 percent of the Direct Note portfolio, were classified acceptable. Six of the remaining Direct Notes, representing 11.28 percent of the portfolio, were classified as Other Assets Especially Mentioned (OAEM) and two of the Direct Notes, representing 4.76 percent of the portfolio, were classified as substandard (adverse). The substandard classifications were pursuant to directives from the FCA which regulates the Bank and the District Associations.

None of the Direct Notes are considered impaired and all are performing. As of December 31, 2010, five Associations were in violation of covenants under the GFA. The Bank either approved temporary waivers of the defaults and allowed these Associations to operate under special credit arrangements (SCAs) pursuant to their respective GFA or no waivers were necessary as the Associations were merged with and into another Association effective January 1, 2011.

All assets of the various Associations are pledged as collateral for their respective Direct Notes. The risk funds of an Association, including both capital and the allowance for loan losses, protect the interest of the Bank should a Direct Note default. In the opinion of management, the two Association Direct Notes classified as adverse were adequately collateralized. Presently, collection of the full amounts due is expected in accordance with the contractual terms of the debt arrangements. Both Associations have experienced unfavorable credit quality trends that negatively impacted their earnings and reflect the general economic conditions in their markets. As a result, both Direct Notes exhibit a moderate amount of credit weakness. At December 31, 2010, on a combined basis, the two Associations had a total of approximately $840.0 million in assets available to service their Direct Notes outstanding, which were approximately $705.0 million. Effective January 1, 2011, one of these Associations, as a part of a three-party business combination, was merged with and into another Association. The one remaining adverse Direct Note subsequent to the merger was less than $340.0 million, or 2.30 percent, of total Direct Notes at December 31, 2010.

Associations employ a number of risk management techniques to limit credit exposures. Each Association 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. Some Associations utilize guarantees from U.S. government agencies/departments, including the Farm Service Agency, the Small Business Administration, and the Federal Agricultural Mortgage Corporation (Farmer Mac), to further limit credit exposures. At

December 31, 2010, Associations collectively had $1.618 billion under such government or government-sponsored enterprise (GSE) guarantee programs, compared to $1.459 billion, and 1.458 billion, at December 31, 2009 and 2008, respectively.

Credit quality within the combined Associations' portfolios has shown a decline since 2008. At year-end, the combined Associations' loans including accrued interest were classified as follows:

District Associations Credit Quality	2010	2009	2008
Acceptable	86.40%	86.99%	92.26%
OAEM	6.54	6.20	3.66
Adverse*	7.06	6.81	4.08
Total	100.00%	100.00%	100.00%

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

Delinquencies (loans 90 days or more past due) were 2.29 percent of the combined Association total loan assets at year-end 2010 compared to 1.71 percent and 0.82 percent at year-end 2009 and 2008, respectively.

Nonperforming assets for the combined Associations represented 4.63 percent of total loan assets or $796.1 million, compared to 3.57 percent or $606.6 million for 2009, and 2.32 percent or $395.8 million for 2008. Nonperforming assets consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned.

Association net loan charge-offs of $93.6 million, $77.9 million and $29.2 million were recognized in 2010, 2009, and 2008, respectively. As a percentage of total average loan assets, net charge-offs for the combined Associations were 0.56 percent for 2010 compared to 0.46 percent and 0.17 percent in 2009 and 2008, respectively. Each Association maintains an allowance for loan losses determined by its management based upon its unique circumstances.

The following table illustrates the risk bearing capacity of the 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%

The minimum regulatory capital ratios for System banks and associations are 7.00 percent for the permanent capital ratio, 3.5 percent for the core surplus ratio, and 7.00 percent for the total surplus ratio.

* 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 insure 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.

Affiliated Associations primarily serve all or a portion of fifteen states and Puerto Rico. The District's large footprint results in geographic diversity, which is a natural credit risk-reducing factor for AgFirst. The following table illustrates the geographic distribution of the Associations' loan volume outstanding by state for the past three years at December 31:

	District Associations		
State	2010	2009	2008
North Carolina	15%	15%	16%
Georgia	13	13	12
Florida	12	13	14
Virginia	11	11	11
Pennsylvania	10	10	10
Maryland	7	7	7
Ohio	7	6	5
South Carolina	6	6	6
Alabama	3	3	3
Kentucky	3	3	3
Mississippi	2	2	2
Delaware	2	2	2
West Virginia	2	2	2
Tennessee	1	1	2
Puerto Rico	1	1	1
Louisiana	1	1	1
Texas	1	1	1
Other	3	3	2
Total	100%	100%	100%

Only five 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 Association loan repayment further mitigates credit risk to AgFirst. The

Associations' 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 Associations by major commodity segments at December 31:

District Associations

	Percent of Portfolio		
Commodity Group	**2010**	**2009**	**2008**
Forestry	16%	16%	16%
Poultry	13	13	13
Fruits/Vegetables	10	10	10
Cattle	8	8	8
Other Real Estate	7	7	7
Grain	6	7	6
Dairy	6	6	5
Nursery/Greenhouse	4	4	5
Corn	4	2	2
Processing	3	4	3
Rural Home	3	3	3
Tobacco	3	3	3
Swine	3	3	3
Cotton	3	2	2
Citrus	1	1	1
Other	10	11	13
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.

District Associations

	Percent of Portfolio		
Commodity Group	**2010**	**2009**	**2008**
Part-time Farmers	38%	39%	40%
Poultry	11	11	11
Forestry	6	6	5
Dairy	5	6	5
Fruits/Vegetables	5	5	5
Grain	4	5	4
Nursery/Greenhouse	4	4	4
Corn	4	2	2
Swine	3	3	3
Processing	3	3	3
Cattle	3	2	2
Rural Home	2	2	3
Cotton	2	2	2
Tobacco	2	2	2
Other Real Estate	2	2	2
Citrus	1	1	1
Other	5	5	6
Total	100%	100%	100%

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

Concentrations within the Associations 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 AgFirst footprint and is used for building materials for the housing market and pulp to make paper and hygiene products. Forestry production operations at the Associations range in size 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 AgFirst District footprint. The volume is spread broadly over the base of Associations.

As mentioned previously, 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 56.95 percent of outstanding loan volume, and loans less than $250 thousand make up approximately 39.74 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, 50.74 percent of the District Association loans were identified as secured by a first lien on real estate.

Participations/Syndications

AgFirst has an active Capital Markets Unit that purchases and sells loan participations and syndications. The Capital Markets Loan Officers and Association Relationship Managers work with the Associations to originate loans within the District's territory, provide commercial loan expertise to augment the Associations' staff, as needed, and provide an outlet for loans that exceed Associations' various hold limits. Additionally, the Capital Markets Unit actively pursues the purchase of participations and syndications originated outside of the District's territory by other System institutions, commercial banks, and other lenders. These loans may be held as earning assets of AgFirst or sub-participated to the Associations. The Capital Markets Unit also sells participations outside of the District to manage AgFirst's and the District Associations' loan concentrations and hold positions.

AgFirst's participation volume outstanding decreased by 12.50 percent from year-end 2009 to 2010 and decreased by 3.40 percent from year-end 2008 to 2009. As with the Direct Notes, borrower demand in this portfolio is anticipated to remain moderate in 2011.

The following table shows total participations/syndications portfolio credit exposures as of December 31, 2010, 2009, and 2008. Participation purchased and sold balances include charge-offs, premiums, discounts, and deferred fees and costs.

	AgFirst Participations		
(dollars in thousands)	**2010**	**2009**	**2008**
Participations Purchased	$ 5,392,636	$ 6,183,774	$ 6,954,123
Less: Participations Sold	1,228,842	1,425,308	2,028,379
Net Outstanding	4,163,794	4,758,466	4,925,744
Available Unused Commitments	2,078,821	2,093,193	2,136,119
Letters of Credit and Guarantees	203,434	239,620	210,664
Total Exposure	$ 6,446,049	$ 7,091,279	$ 7,272,527

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

The following table illustrates AgFirst's participation/syndication portfolio by geographic distribution at December 31:

	AgFirst Participations					
(dollars in thousands)	**2010**		**2009**		**2008**	
Florida	$ 699,891	17%	$ 974,827	20%	$ 986,651	20%
North Carolina	465,068	11	566,539	12	418,186	9
Georgia	384,696	9	421,634	9	566,183	11
Pennsylvania	243,316	6	305,646	6	306,606	6
Virginia	208,033	5	218,663	5	202,491	4
Mississippi	171,812	4	143,477	3	171,437	4
California	162,449	4	194,977	4	214,170	4
Texas	150,567	4	180,344	4	191,293	4
Alabama	140,027	3	150,946	3	176,848	4
Ohio	132,194	3	120,728	2	95,849	2
South Carolina	115,054	3	174,489	4	207,270	4
Missouri	99,729	2	86,239	2	91,696	2
Minnesota	97,376	2	78,399	2	109,152	2
Louisiana	86,858	2	86,381	2	82,913	2
Oregon	89,862	2	94,356	2	72,958	1
New York	87,736	2	84,503	2	112,455	2
Tennessee	83,436	2	89,435	2	128,656	3
Kentucky	82,094	2	102,806	2	91,073	2
Delaware	70,444	2	89,106	2	85,732	2
Washington	61,054	2	82,337	2	70,060	1
Connecticut	59,661	1	61,217	1	81,391	2
Colorado	58,596	1	78,431	2	70,475	1
Arkansas	47,470	1	50,161	1	53,846	1
Illinois	43,054	1	30,177	1	15,963	0
Iowa	38,914	1	42,168	1	48,223	1
Nebraska	34,773	1	12,577	0	12,726	0
New Jersey	34,402	1	34,158	1	34,838	1
North Dakota	31,237	1	31,638	1	24,445	0
Massachusetts	29,395	1	21,964	0	24,523	1
Puerto Rico	28,102	1	29,748	0	29,210	1
Other	126,494	3	120,395	2	148,425	3
	$ 4,163,794	100%	$ 4,758,466	100%	$ 4,925,744	100%

The largest major commodity concentrations are in the forestry, agribusiness, and food and kindred products groups, which in turn represent a widely diverse group of forestry, forest products, agribusiness, food, and food processing companies. The following shows the various major commodity groups in the portfolio and their percentage of the portfolio's outstanding volume at December 31:

AgFirst Participations	Percent of Portfolio		
Commodity Group	**2010**	**2009**	**2008**
Forestry	14%	15%	16%
Agribusiness	14	12	13
Food and Kindred Products	13	13	13
Electric Utilities	7	6	4
Citrus	5	6	6
Lumber/Paper	5	5	6
Cattle	5	5	5
Poultry & Eggs	5	5	4
Horticulture	4	5	4
Swine	3	5	5
Telephone Utilities	3	2	3
Sugar Cane/Sugar Beets	2	2	3
Other	20	19	18
Total	100%	100%	100%

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.

The following table represents the Participation/Syndication credit quality as of December 31:

Participation/Syndication Credit Quality	2010	2009	2008
Acceptable	82.81%	83.44%	90.17%
OAEM	10.07	7.18	5.56
Adverse	7.12	9.38	4.27
Total	100.00%	100.00%	100.00%

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

Correspondent Lending

The Correspondent Lending Unit (Correspondent Lending) purchases residential loans, including part-time farm loans, from a network of correspondents including the affiliated Associations. Essentially all loans purchased by Correspondent Lending are guaranteed by Fannie Mae or Farmer Mac, thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par.

The table below illustrates the Correspondent Lending outstanding balance of loans at December 31:

	AgFirst Correspondent Lending					
(dollars in millions)	2010		2009		2008	
Rural Home Loans – Guaranteed	$ 1,765	90.16%	$ 1,479	88.49%	$ 1,128	86.14%
Part-time Farm Loans – Guaranteed	122	6.24	131	7.87	120	9.18
Agricultural Loans – Guaranteed	2	0.08	2	0.12	2	0.15
Non-guaranteed Loans	69	3.52	59	3.52	59	4.53
Total	$ 1,958	100.00%	$ 1,671	100.00%	$ 1,309	100.00%

Rural home loans are underwritten to conform to Fannie Mae underwriting standards and are guaranteed by Fannie Mae. Part-time farm loans conform to Farmer Mac underwriting standards and are guaranteed by Farmer Mac. During 2010, AgFirst purchased $568.3 million of rural home and part-time farm loans.

AgFirst owned $1.765 billion in rural home loans at December 31, 2010. These loans are the most significant portion of the Correspondent Lending portfolio due to the Associations' active participation in Fannie Mae home loan programs.

AgFirst owned $122.2 million in part-time farm loans at December 31, 2010. Part-time farm loans represent first lien mortgages on homes with property characteristics (such as acreage or agricultural improvements) that may not conform to Fannie Mae standards. These loans are guaranteed by Farmer Mac. The guarantee program for these loans was discontinued by Farmer Mac in 2010, which will result in lower part-time farm loan balances as these loans are repaid.

AgFirst owned $1.6 million of agricultural loans that are guaranteed by Farmer Mac at December 31, 2010. This segment is small, due primarily to the Associations' propensity to hold agricultural loans in-portfolio. A number of Associations obtain Farmer Mac guarantees for qualifying segments of their agricultural portfolios, thereby eliminating their need to sell those loans to AgFirst.

The $68.8 million of non-guaranteed loans at December 31, 2010 generally consists of loans that are being held for eventual delivery to, or guarantee by, Fannie Mae or Farmer Mac. Such loans are secured by first-lien mortgages and were considered high quality assets at time of purchase.

The majority of loans owned and/ or serviced by AgFirst are sub-serviced through agreements with third parties. The total volume owned as of December 31, 2010 was $1.958 billion. The total volume serviced but not owned as of December 31, 2010 was $45.9 million.

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.

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. The Bank had $150.8 million invested in the program as of December 31, 2010, an increase of $6.8 million from December 31, 2009. Of the $150.8 million, the Bank had $128.6 million reflected in investment securities and $22.2 million reflected as loans on the Consolidated Balance Sheet at December 31, 2010. The FCA approved a continuation of the program at October 31, 2008 for an as yet undetermined time period.

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

The organizational structure of AgFirst facilitates communication of operational and risk management issues throughout all layers of management and across all functional areas. AgFirst's President and Chief Operating Officer, who also acts as the Chief Risk Officer and reports directly to the Chief Executive Officer of the Bank, is responsible for:

- Providing overall leadership, vision, and direction for enterprise risk management;
- Establishing an integrated risk management framework for all aspects of risk across the organization;
- Ensuring development of risk management policies, including the quantification of management's risk appetite through specific risk limits;
- Implementing a set of risk metrics and reports, including key risk exposures and early warning indicators;
- Reviewing and approving recommendations for the allocation of economic capital to business activities based on risk, and optimizing the Bank's risk portfolio through business activities and risk transfer strategies;
- Improving the Bank's risk management readiness through coordination of communication and training programs, risk-based performance measurement and incentives, and other change management programs;
- Assigning responsibility for development of analytical systems and data management capabilities to support the risk management program; and
- Reporting periodically to the Board of Directors on actions taken to strengthen the Bank's system of internal controls.

Overview

The Bank 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 AgFirst'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 Bank's business activities.

Types of risks to which the Bank 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 Bank'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 8, *Bonds and Notes*, in the Notes to the Consolidated 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 Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank sets underwriting standards and lending policies consistent with FCA regulations which 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 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.

AgFirst'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 its credit risk management process, the Bank'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
AgFirst High-risk Assets			
Nonaccrual loans	$ 115,720	$ 217,307	$ 176,411
Restructured loans	45,303	–	–
Accruing loans 90 days past due	6,575	10,211	11,325
Total high-risk loans	167,598	227,518	187,736
Other property owned	39,719	25,909	540
Total high-risk assets	$ 207,317	$ 253,427	$ 188,276
Ratios			
Nonaccrual loans to total loans	0.55%	1.02%	0.83%
High-risk assets to total assets	0.67%	0.82%	0.63%

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank at December 31, 2010 were $115.7 million compared to $217.3 million at December 31, 2009. Nonaccrual loans decreased $101.6 million during 2010 due primarily to charge-offs of uncollectible balances of $58.4 million (composed primarily of charge-offs on 5 borrower relationships totaling $47.5 million). Other decreases to nonaccrual loans consisted of transfers to other property owned of $29.6 million, reinstatements to accrual status of $44.2 million, and repayments of $30.1 million. Offsetting these decreases were $71.2 million of loan balances transferred to nonaccrual status during 2010. The five largest nonaccrual borrower relationships accounted for 51.75 percent of the total nonaccrual balance. At December 31, 2010, total nonaccrual loans were primarily classified in the forestry (34.43 percent of the total), cattle (21.87 percent), other real estate (19.73 percent), and ethanol (12.16 percent) segments. Some of these nonaccrual loans are secured by real estate, which has been negatively impacted by the current economic environment as discussed previously. Nonaccrual loans were 0.55 percent of total loans outstanding at December 31, 2010.

A troubled debt restructuring occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms or rates or a compromise of amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by both the lender and the borrower. Troubled debt restructurings totaled $66.0 million at December 31, 2010, comprised of $45.3 million of accruing restructured loans and $20.7 million of nonaccruing restructured loans. Restructured loans were primarily in the swine (46.51 percent of the total), forestry (22.52 percent) and nursery/greenhouse (17.08 percent) segments.

Other property owned (OPO) consists of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO increased $13.8 million during 2010 and totaled $39.7 million at December 31, 2010. For 2010, transfers to OPO were $29.6 million, which are composed primarily of two properties, a cattle and groves land holding of $4.6 million and another land holding of $12.6 million. Proceeds from the sale of OPO of $8.4 million were primarily from the disposal of the Bank's $5.8 million interest in an ethanol production facility. Total gains of $2.3 million from this sale were deferred and will be recognized in future periods in accordance with accounting guidance. The largest OPO holding at December 31, 2010 which consisted of parcels of land, was $12.6 million (31.62 percent of the total).

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 AgFirst'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.

AgFirst and the District Associations adhere 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 AgFirst'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	$521,012	4.21%
+2.0% Shock	$533,191	6.64%
Base line	$499,971	-
-50% of 3M Tbill **	$501,423	0.29%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities	Equity*	% Change
Book Value	$30,780,652	$29,269,663	$1,510,989	-
+4.0% Shock	$28,647,248	$27,223,262	$1,423,986	(18.98)%
+2.0% Shock	$29,883,193	$28,211,329	$1,671,865	(4.88)%
Base line	$31,056,839	$29,299,193	$1,757,646	-
-50% of 3M Tbill **	$31,087,701	$29,331,799	$1,755,901	(0.10)%

* *For interest rate risk management, the $400.0 million in perpetual preferred stock 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	$ 4,629,492	$ 26,821	$ 65,149	$ 22,731	$ 4,744,193
Fixed Rate Loans					
Fixed Rate Loans	82,699	40,520	165,319	38,456	326,994
Fixed Rate Prepayable	5,235,331	2,740,571	6,611,789	1,130,567	15,718,258
Nonaccrual Loans					
Nonaccrual Loans	–	–	–	115,720	115,720
Total Loans	**9,947,522**	**2,807,912**	**6,842,257**	**1,307,474**	**20,905,165**
Total Investments *	**3,814,498**	**1,243,955**	**2,540,326**	**538,643**	**8,137,422**
TOTAL INTEREST EARNING ASSETS	**$ 13,762,020**	**$ 4,051,867**	**$ 9,382,583**	**$ 1,846,117**	**$ 29,042,587**
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	–	225,000	–	–	225,000
Interest rate swaps	935,000	(400,000)	(385,000)	(150,000)	-
TOTAL INTEREST-BEARING LIABILITIES	**$ 14,051,069**	**$ 5,827,000**	**$ 7,836,000**	**$ 836,500**	**$ 28,550,569**
Interest Rate Sensitivity Gap	**$ (289,049)**	**$ (1,775,133)**	**$ 1,546,583**	**$ 1,009,617**	
Sensitivity Gap as % of Total Earning Assets	(1.00)%	(6.11)%	5.33%	3.48%	
Cumulative Gap	$ (289,049)	$ (2,064,182)	$ (517,599)	$ 492,018	
Cumulative Gap as a % of Total Earning Assets	(1.00)%	(7.11)%	(1.78)%	1.69%	
Rate Sensitive Assets/Rate Sensitive Liabilities	0.98	0.70	1.20	2.21	

** includes cash equivalents*

At December 31, 2010, the Repricing/Maturity Gap showed the Bank with a cumulative liability sensitive position out to one year as repricing/maturing debt exceeded assets that mature or reprice during that time period. 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 Bank 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 Bank's Consolidated Balance Sheet at December 31, 2010.

AgFirst policy prohibits the use of derivatives for speculative purposes. See Note 17, *Derivative Instruments and Hedging Activities*, in the Notes to the Consolidated 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

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

Investments and Cash and Cash Equivalents

Investment securities and cash and cash equivalents outstanding as of December 31, 2010 for AgFirst totaled $9.504 billion compared to $9.165 billion and $8.270 billion at December 31, 2009 and 2008, respectively.

Cash and cash equivalents, which increased $488.1 million from December 31, 2009 to a total of $1.427 billion 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 due primarily 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 $8.077 billion, or 26.24 percent of total assets at December 31, 2010, compared to $8.226 billion, or 26.65 percent, as of December 31, 2009. Investment securities decreased $149.5 million, 1.82 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.

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

	AgFirst Investment Securities and Cash and Cash Equivalents					
(dollars in thousands)	**2010**		**2009**		**2008**	
Investment Securities						
Available for Sale						
Agency CMOs	$ 5,221,510	64.65%	$ 4,197,055	51.01%	$ 3,245,283	40.60%
Agency ARMs	1,561,784	19.33	2,337,499	28.42	2,533,993	31.70
Non-Agency CMOs	206,633	2.56	256,006	3.11	404,321	5.06
Asset-Backed Securities	34,437	0.43	47,465	0.58	79,960	1.00
Total Available for Sale	$ 7,024,364	86.97%	$ 6,838,025	83.12%	$ 6,263,557	78.36%
Held to Maturity						
Rural Housing MBS	$ 902,557	11.17%	$ 1,237,233	15.04%	$ 1,494,837	18.70%
MBS Guaranteed by Farmer Mac	11,091	0.14	12,818	0.16	15,355	0.19
Mission Related Investments	138,666	1.72	138,133	1.68	219,408	2.75
Total Held to Maturity	1,052,314	13.03	1,388,184	16.88	1,729,600	21.64
Total Investment Securities	$ 8,076,678	100.00%	$ 8,226,209	100.00%	$ 7,993,157	100.00%
Cash and Cash Equivalents						
Cash	$ 1,366,289	95.74%	$ 705,993	75.20%	$ 7,373	2.66%
Fed Funds	–	–	–	–	–	–
Master Notes	52,000	3.65	86,690	9.23	82,000	29.60
Repos	8,744	0.61	146,201	15.57	187,630	67.74
Total Cash and Cash Equivalents	$ 1,427,033	100.00%	$ 938,884	100.00%	$ 277,003	100.00%
Total Investment Securities and Cash and Cash Equivalents	$ 9,503,711		$ 9,165,093		$ 8,270,160	

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 total loans outstanding.

AgFirst 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 $1.052 billion at December 31, 2010.

Investment securities classified as being available-for-sale totaled $7.024 billion at December 31, 2010. Available-for-sale investments included $5.222 billion in Agency Collateralized Mortgage Obligations (CMOs), $1.562 billion in Agency Adjustable Rate Mortgages, $206.6 million in non-agency CMOs, and $34.4 million in asset-backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

The FCA considers an asset-backed or mortgage-backed investment security ineligible if it falls below the top category (AAA/Aaa) credit rating by the Nationally Recognized Statistical Rating Organizations (NRSROs). The FCA requires System institutions to divest of such an investment unless the FCA grants specific approval to continue to hold an ineligible security. For each of the investment securities in the Bank's portfolio at December 31, 2010 rated below AAA/Aaa (total fair value of $234.6 million and amortized cost of $288.5 million), the Bank has developed and submitted plans for approval by the FCA that provide that the Bank may continue to hold the securities. The FCA has approved, with conditions, the Bank's plans for all but five investments that have recently become ineligible. The Bank 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 Bank than selling them in the current illiquid market. Based on the Bank's analysis, no other-than-temporary credit related impairment was recognized on these recently ineligible securities.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain Bank ineligible securities are risk weighted between 200 percent and 50 percent instead of the standard 20 percent. These ineligible securities had a fair value of $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 $62.0 million and amortized cost of $75.8 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 $43.7 million at December 31, 2010, compared to a total net unrealized loss amount of $121.1 million at December 31, 2009. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Additional analysis for each security not rated in the top category by the NRSROs is performed using a cash flow model with key assumptions and performance factors which may include credit default rate, prepayment rate, and loss severity. The objective is to quantify future possible loss of principal or interest due on each identified security. The credit enhancements specific to the individual security are considered as appropriate, and may include monoline credit insurance, subordination, over-collateralization, and excess interest spread. Asset-backed securities covered by insurers are analyzed with insurance and without, to quantify the extent of reliance on their guarantee. Based on the results of all analyses, the Bank recognized other-than-temporary credit related impairment of $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 $9.2 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 Consolidated Financial Statements for further information.

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

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 8, *Bonds and Notes*, in the Notes to the Consolidated Financial Statements, for additional information related to debt.

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 controls 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 addition, AgFirst has implemented a Risk Management Policy to ensure that business exposures to risk are identified, measured and controlled, using the most effective and efficient methods to eliminate, reduce, or transfer such exposures. AgFirst's risk management structure was designed to ensure that an effective enterprise-wide risk management program is in place. Exposure to operational risk is typically identified with the assistance of senior management. Internal audit plans are developed under the oversight of AgFirst's Board Audit Committee 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

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The Bank 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 is uncollectible. Any subsequent recoveries are added to the allowance. Impaired and certain other significant loans were reviewed individually to determine that appropriate reserves were in place at year end. All other participation 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 allowance for loan losses was $14.9 million at December 31, 2010, as compared with $32.3 million and $44.6 million at December 31, 2009 and 2008, respectively. The decrease during 2010 of $17.4 million was due primarily to $58.4 million of loan charge-offs as their uncollectability became more apparent and measurable during the year. Charge-offs were related primarily to the forestry (42.11 percent of the total), other real estate (28.58 percent), and cattle (12.48 percent) segments. The allowance at December 31, 2010 included specific reserves of $4.5 million (30.37 percent of the total) primarily related to credits for participation borrower relationships within the ethanol, other real estate, and forestry industries and $10.4 million (69.63 percent) of general reserves attributed to participation loans. The total allowance at December 31, 2010 was comprised primarily of reserves for ethanol (18.27 percent), nonfarm income (12.91 percent), forestry (10.73 percent), and nursery/greenhouses (9.01 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 Consolidated 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:

AgFirst Allowance for Loan Losses Activity:

(dollars in thousands)	2010	2009	2008
Balance at beginning of year	$ 32,292	$ 44,565	$ 2,816
Charge-offs:			
Real Estate Mortgage	(42,430)	(25,904)	(322)
Production and Intermediate-Term	(8,590)	(645)	–
Agribusiness	(7,379)	(32,203)	–
Rural Residential Real Estate	–	(328)	–
Energy	–	–	–
Other (including Mission Related)	–	–	(1,429)
Total charge-offs	(58,399)	(59,080)	(1,751)
Recoveries:			
Real Estate Mortgage	799	34	–
Production and Intermediate-Term	19	–	–
Agribusiness	160	125	–
Other (including Mission Related)	–	–	158
Total recoveries	978	159	158
Net (charge-offs) recoveries	(57,421)	(58,921)	(1,593)
Provision for (reversal of allowance for) loan losses	40,002	46,648	43,342
Balance at end of year	$ 14,873	$ 32,292	$ 44,565
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.276)%	(0.278)%	(0.008)%

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

AgFirst Allowance for Loan Losses by Loan Type

(dollars in thousands)	2010	2009	2008
Real Estate Mortgage	$ 4,836	$ 11,583	$ 12,885
Production and Intermediate-Term	5,938	11,606	8,203
Agribusiness	2,722	8,286	22,724
Energy	307	274	–
Communication	69	72	–
Rural Residential Real Estate	–	12	7
Other (including Mission Related)	1,001	459	746
Total	$ 14,873	$ 32,292	$ 44,565

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators at December 31 is shown below:

	2010	2009	2008
Allowance for loan losses to loans	0.07%	0.15%	0.21%
Allowance for loan losses to nonaccrual loans	12.85%	14.92%	25.26%
Allowance for loan losses to participation loans and Correspondent Lending loans	0.24%	0.50%	0.71%

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 Bank 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 Consolidated Financial Statements and the *Significant Accounting Policies* section above for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net Income

AgFirst net income totaled $417.4 million for the year ended December 31, 2010, an increase of $108.3 million over 2009. AgFirst net income totaled $309.1 million for the year ended December 31, 2009, an increase of $91.9 million over 2008. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

Changes in Net Income *(dollars in thousands)*	**Year Ended December 31,** **2010**	**2009**
Net income (for prior year)	$ 309,143	$ 217,167
Increase (decrease) due to:		
Total interest income	(78,043)	(301,946)
Total interest expense	159,628	425,086
Net interest income	81,585	123,140
Provision for loan losses	6,646	(3,306)
Noninterest income	11,188	2,527
Noninterest expense	8,833	(30,385)
Total increase (decrease) in net income	108,252	91,976
Net income	$ 417,395	$ 309,143

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	1.37 %	1.03 %	0.76 %
Return on average shareholders' equity	22.25 %	20.90 %	14.59 %
Net interest income as a percentage of average earning assets	1.96 %	1.66 %	1.29 %
Net (charge-offs) recoveries to average loans	(0.276) %	(0.278) %	(0.008) %

Interest Income

Total interest income for the year ended December 31, 2010 was $953.5 million, a decrease of $78.0 million, as compared to the same period of 2009. Total interest income for 2009 was $1.032 billion, a decrease of $301.9 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 $372.8 million. The average yield on interest earning assets decreased 0.22 percent in 2010.

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 (decrease) in average earning assets	$ (372,780)	$ 1,188,063
Prior year average yield	3.49 %	4.70 %
Interest income variance attributed to change in volume	(13,017)	55,874
Current year average earning assets	29,170,131	29,542,911
Current year increase (decrease) in average yield	(0.22) %	(1.21) %
Interest income variance attributed to change in yield	(65,026)	(357,820)
Net change in interest income	$ (78,043)	$ (301,946)

Interest Expense

Total interest expense for the year ended December 31, 2010 was $382.3 million, a decrease of $159.6 million, as compared to the same period of 2009. Total interest expense for the year ended December 31, 2009 was $541.9 million, a decrease of $425.1 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 (decrease) in average interest-bearing liabilities	$ 141,815	$ 1,419,377
Prior year average rate	1.91%	3.60%
Interest expense variance attributed to change in volume	2,715	51,046
Current year average interest-bearing liabilities	28,449,108	28,307,293
Current year increase (decrease) in average rate	(0.57)%	(1.68)%
Interest expense variance attributed to change in rate	(162,343)	(476,132)
Net change in interest expense	$ (159,628)	$ (425,086)

Net Interest Income

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

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

	2010			2009			2008		
	Avg. Balance	Interest	Avg. Yield	Avg. Balance	Interest	Avg. Yield	Avg. Balance	Interest	Avg. Yield
Loans	$ 20,817,231	$ 760,681	3.65%	$ 21,198,295	$ 830,778	3.92%	$ 20,416,963	$ 1,027,651	5.03%
Cash & investments	8,352,900	192,839	2.31%	8,344,616	200,785	2.41%	7,937,885	305,858	3.84%
Total earning assets	$ 29,170,131	$ 953,520	3.27%	$ 29,542,911	$ 1,031,563	3.49%	$ 28,354,848	$ 1,333,509	4.70%
Interest-bearing liabilities	$ 28,449,108	$ (382,274)	1.34%	$ 28,307,293	$ (541,902)	1.91%	$ 26,887,916	$ (966,988)	3.60%
Spread			1.93%			1.58%			1.10%
Impact of capital	$ 721,023		0.03%	$ 1,235,618		0.08%	$ 1,466,932		0.19%
Net Interest Income (NII) & NII to average earning assets		$ 571,246	1.96%		$ 489,661	1.66%		$ 366,521	1.29%

Net interest income for the year ended December 31, 2010 was $571.2 million compared to $489.7 million for the same period of 2009, an increase of $81.6 million or 16.66 percent. The net interest margin was 1.96 percent and 1.66 percent in the current year and previous year, respectively, an improvement of 30 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 measures risks inherent in its portfolio on an ongoing basis and as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. The net provision for loan losses was $40.0 million for the year ended December 31, 2010, compared to $46.6 million for 2009. The net provision for loan losses for 2010 included additions to specific reserves of $40.2 million related to individual credits and a net reversal to general reserves of $230 thousand. Provision expense for 2010 consisted primarily of specific reserve increases for four participation borrower relationships totaling $37.8 million, offset by a provision reversal for one participation borrower totaling $6.0 million. Provision expense for 2010 primarily related to borrowers in the forestry (44.19 percent of the total) and other real estate (41.25 percent) segments.

As mentioned previously, declining real estate values were, in part, the reason for some of the provision expense recognized by the Bank. See Note 4, *Loans and Allowance for Loan Losses*, in the Consolidated 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	$ 16,309	$ 13,312	$ 8,626	$ 2,997	$ 4,686
Gain (losses) from other property owned, net	(5,392)	(2,824)	(19)	(2,568)	(2,805)
Gains (losses) on investments, net	1,568	9,918	–	(8,350)	9,918
Net impairment losses on investments	(11,912)	(26,168)	(10,465)	14,256	(15,703)
Gains (losses) on derivatives, net	–	469	(359)	(469)	828
Gains (losses) on sales of rural home loans, net	(112)	1	(70)	(113)	71
Patronage refunds from other Farm Credit Institutions	2,928	5,327	3,164	(2,399)	2,163
Insurance premium refund	10,440	–	–	10,440	–
Other noninterest income	4,760	7,366	3,997	(2,606)	3,369
Total noninterest income	$ 18,589	$ 7,401	$ 4,874	$ 11,188	$ 2,527

For 2010 and 2009, increases in loan fees were due primarily to a market environment of higher refinance and amendment activity which resulted in additional fee collections.

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.

Patronage refunds from other Farm Credit institutions decreased $2.4 million in 2010 and increased $2.2 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. Also, for 2009, there was an increase in patronage received from another System bank to which, during 2008, the Bank sold a total of $200 million participation interest in its direct note receivable from a district Association.

The Bank recorded $10.4 million of insurance premium refunds during the first quarter of 2010 from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Other noninterest income was $4.8 million for the year ended December 31, 2010, or a $2.6 million decrease compared to December 31, 2009, due primarily to a captive insurance allocated loss based on claims experience recorded in 2010 and a gain from the Bank's termination of the captive mortgage insurance program recorded in 2009. Also contributing to the $3.4 million increase for 2009 were income from outside sources for services to Associations and 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	**For the Year Ended December 31,**			**Increase/(Decrease)**	
(dollars in thousands)	**2010**	**2009**	**2008**	**2010/ 2009**	**2009/ 2008**
Salaries and employee benefits	$ 43,105	$ 40,960	$ 30,655	$ 2,145	$ 10,305
Occupancy and equipment	15,675	14,720	14,957	955	(237)
Insurance Fund premiums	5,147	20,605	12,153	(15,458)	8,452
Other operating expense	21,401	21,873	22,174	(472)	(301)
Called debt expense	38,420	36,531	26,652	1,889	9,879
Correspondent lending servicing expense	8,413	6,303	4,017	2,110	2,286
Other noninterest expenses	277	279	278	(2)	1
Total noninterest expenses	$ 132,438	$ 141,271	$ 110,886	$ (8,833)	$ 30,385

Salaries and employee benefits increased over the three year period of 2008 through 2010 as a result of normal salary administration and increased benefit costs. In addition for the twelve months ended December 31, 2009, pension expense was $6.3 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 plan in which the Bank participates. Pension expense for 2010 was $571 thousand greater 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 plan in which the Bank participates. 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 $15.5 million decrease in 2010 and $8.5 million increase in the Insurance Fund premiums in 2010 and 2009, 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.

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.

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 shareholders' equity at December 31, 2010 was $1.903 billion, compared to $1.580 billion and $1.241 billion at December 31, 2009 and 2008, respectively. The increase in 2010 of $322.5 million was primarily related to the increase in retained earnings from net income of $417.4 million and $164.8 million in net unrealized gains during 2010 on investments available-for-sale, a component of AOCI. These increases were offset by patronage declared of $200.8 million and preferred stock dividends paid of $27.4 million. The total AOCI balance at December 31, 2010 was a positive $32.3 million compared to a negative $123.2 million at December 31, 2009. The increase in total shareholder's equity of $339.2 million during 2009 was primarily related to net income of $309.1 million and $238.2 million in net unrealized gains for investments available-for-sale, offset by $183.1 million of patronage declared.

Capital stock and participation certificates totaled $417.3 million at December 31, 2010, compared to $438.7 million at December 31, 2009, a decrease of $21.4 million. This decrease was due primarily to stock redemption related to participation loans purchased from Associations. Also contributing to the 2010 decrease was $8.6 million of stock redeemed as a result of the sale back of participation loans previously purchased from one Association. The Associations are required to maintain ownership in the Bank in the form of Class B and Class C stock. The Associations' minimum stock requirement is 1.75 percent of Association Direct Note balances. A stock equalization computation is made annually and the decrease in the Direct Note balances mentioned in the *Direct Note* section above explains the fluctuations in Association owned capital 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 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 9, *Mandatorily Redeemable Preferred Stock*, and Note 10, *Shareholders' Equity*, in the Notes to the Consolidated 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 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 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%

Regulatory ratios for each District Association at December 31 are presented in the *Direct Notes* section above. At December 31, 2010 two of the Associations did not meet the minimum core surplus ratio as discussed in the *Direct Notes* section above. All other Associations met all of the regulatory minimum capital requirements at December 31, 2010.

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.

Refer to Note 10, *Shareholders' Equity*, in the Notes to the Consolidated 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 Bank's business activities. The Bank'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 Bank 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 Bank 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 Bank anticipates these methodologies and assumptions will continue to be refined.

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

AgFirst 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 AgFirst would be immaterial in relation to the financial position of AgFirst. Refer to Note 14, *Commitments and Contingencies*, in the Notes to the Consolidated 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 20, *District Merger Activity*, in the Notes to the Consolidated 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 Consolidated 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 Consolidated 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 following table sets forth certain information regarding the properties owned by the reporting entity, 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 14 to the Consolidated 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 10 to the Consolidated Financial Statements, *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, 7, 8, 9, 11 and 14 to the Consolidated 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 reporting entity.

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 11 to the Consolidated 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, and 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. Norsworth, 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 12 to the Consolidated 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.

Consolidated Financial Statements

The Consolidated 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.

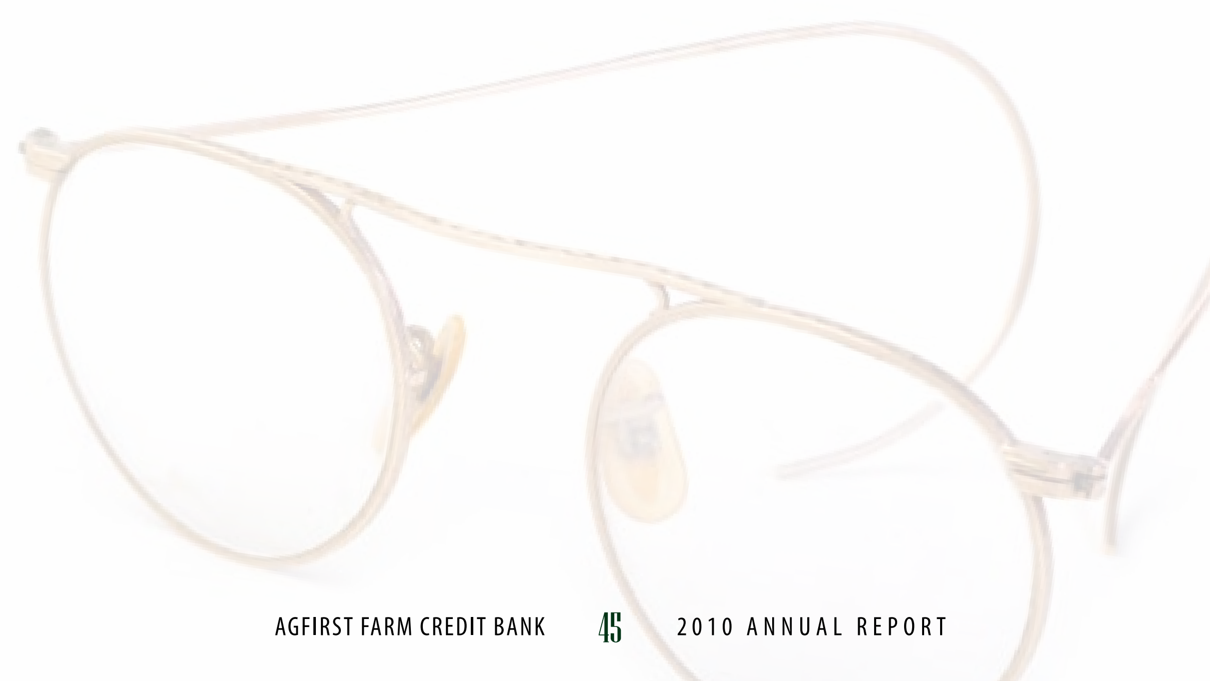
Borrower Information Regulations

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

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 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 Bank's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Bank's independent auditor for 2010, is responsible for expressing an opinion on the conformity of the Bank's 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 Company's 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

To the Board of Directors and Shareholders
of AgFirst Farm Credit Bank

In our opinion, the accompanying consolidated balance sheets and the related consolidated 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 its subsidiaries 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 Bank'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

Consolidated

Balance Sheets

(dollars in thousands)	As of December 31, 2010	2009	2008
Assets			
Cash and cash equivalents	**$ 1,427,033**	$ 938,884	$ 277,003
Investment securities:			
Available for sale (amortized cost of $6,980,661, $6,959,113 and $6,619,348 respectively)	**7,024,364**	6,838,025	6,263,557
Held to maturity (fair value of $1,114,064, $1,426,740 and $1,763,185 respectively)	**1,052,314**	1,388,184	1,729,600
Total investment securities	**8,076,678**	8,226,209	7,993,157
Loans	**20,905,165**	21,327,319	21,239,330
Less: allowance for loan losses	**14,873**	32,292	44,565
Net loans	**20,890,292**	21,295,027	21,194,765
Accrued interest receivable	**84,692**	94,756	106,593
Investments in other Farm Credit System institutions	**65,300**	76,635	75,055
Premises and equipment, net	**11,361**	14,489	18,061
Other property owned	**39,719**	25,909	540
Due from associations	**20,550**	37,345	40,671
Other assets	**165,941**	158,290	205,206
Total assets	**$ 30,781,566**	$ 30,867,544	$ 29,911,051
Liabilities			
Bonds and notes	**$ 28,325,569**	$ 28,694,013	$ 28,053,023
Mandatorily redeemable preferred stock	**225,000**	225,000	225,000
Accrued interest and dividends payable	**57,816**	83,038	154,143
Patronage distribution payable	**190,543**	182,724	157,017
Other liabilities	**79,857**	102,439	80,776
Total liabilities	**28,878,785**	29,287,214	28,669,959
Commitments and contingencies (Note 14)			
Shareholders' Equity			
Perpetual preferred stock	**400,000**	400,000	400,000
Capital stock and participation certificates	**417,333**	438,707	434,929
Retained earnings			
Allocated	**871**	965	805
Unallocated	**1,052,248**	863,862	762,550
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 equity	**$ 30,781,566**	$ 30,867,544	$ 29,911,051

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

Consolidated Statements of

Income

(dollars in thousands)	For the year ended December 31, 2010	2009	2008
Interest Income			
Investment securities and other	$ **192,839**	$ 200,785	$ 305,858
Loans	**760,681**	830,778	1,027,651
Total 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 (reversal of allowance for) loan losses	**531,244**	443,013	323,179
Noninterest Income			
Loan fees	**16,309**	13,312	8,626
Gains (losses) from other property owned, net	**(5,392)**	(2,824)	(19)
Gains (losses) on investments, net (Note 3)	**1,568**	9,918	—
Total other-than-temporary impairment losses on investments (Note 3)	**(9,250)**	(60,412)	(10,465)
Portion of loss recognized in other comprehensive income (loss) (Note 3)	**(2,662)**	34,244	—
Net other-than-temporary impairment losses on investments included in earnings	**(11,912)**	(26,168)	(10,465)
Gains (losses) on derivatives, net	**—**	469	(359)
Gains (losses) on sales of rural home loans, net	**(112)**	1	(70)
Patronage refunds from other Farm Credit institutions	**2,928**	5,327	3,164
Insurance premium refund	**10,440**	—	—
Other noninterest income	**4,760**	7,366	3,997
Total 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 premiums	**5,147**	20,605	12,153
Other operating expenses	**21,401**	21,873	22,174
Called debt expense	**38,420**	36,531	26,652
Correspondent lending servicing expense	**8,413**	6,303	4,017
Other noninterest expense	**277**	279	278
Total noninterest expenses	**132,438**	141,271	110,886
Net income	$ **417,395**	$ 309,143	$ 217,167

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

Consolidated Statements of Changes in

Shareholders' Equity

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2007	$ 400,000	$ 364,759	$ 705	$ 730,724	$ (38,707)	$ 1,457,481
Comprehensive income (loss)						
Net income				217,167		217,167
Unrealized gains (losses) on investments available for sale					(318,037)	(318,037)
Employee benefit plans adjustments (Note 11)				(138)	(448)	(586)
Total comprehensive income (loss)						(101,456)
Capital stock/participation certificates issued/(retired), net		69,586				69,586
Stock dividends declared/paid		584		(584)		—
Perpetual preferred stock dividends paid				(27,413)		(27,413)
Patronage distribution						
Cash distributions declared				(157,278)		(157,278)
Nonqualified allocated retained earnings			188	(188)		—
Patronage distribution adjustment			(88)	260		172
Balance at December 31, 2008	400,000	434,929	805	762,550	(357,192)	1,241,092
Cumulative-effect adjustment for investment impairment accounting change (Note 3)				3,474	(3,474)	—
Comprehensive income (loss)						
Net income				309,143		309,143
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 3)					(31,606)	
Not other-than-temporarily impaired (Note 3)					269,783	
Total unrealized gains (losses) on investments available for sale						238,177
Employee benefit plans adjustments (Note 11)					(715)	(715)
Total comprehensive income (loss)						546,605
Capital stock/participation certificates issued/(retired), net		3,205				3,205
Stock dividends declared/paid		573		(573)		—
Perpetual preferred stock dividends paid				(27,413)		(27,413)
Patronage distribution						
Cash distributions declared				(183,116)		(183,116)
Nonqualified allocated retained earnings			160	(160)		—
Patronage distribution adjustment				(43)		(43)
Balance at December 31, 2009	400,000	438,707	965	863,862	(123,204)	1,580,330
Comprehensive income (loss)						
Net income				**417,395**		**417,395**
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 3)					**14,432**	
Not other-than-temporarily impaired (Note 3)					**150,359**	
Total unrealized gains (losses) on investments available for sale						**164,791**
Employee benefit plans adjustments (Note 11)					**(507)**	**(507)**
Change in fair value of derivative instruments - when issued securities					**(8,751)**	**(8,751)**
Total comprehensive income (loss)						**572,928**
Capital stock/participation certificates issued/(retired), net		**(22,095)**				**(22,095)**
Stock dividends declared/paid		**721**		**(721)**		—
Perpetual preferred stock dividends paid				**(27,413)**		**(27,413)**
Patronage distribution						
Cash distributions declared				**(200,772)**		**(200,772)**
Nonqualified allocated retained earnings			**(94)**	**94**		—
Patronage distribution adjustment				**(197)**		**(197)**
Balance at December 31, 2010	**$ 400,000**	**$ 417,333**	**$ 871**	**$ 1,052,248**	**$ 32,329**	**$ 1,902,781**

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

Consolidated Statements of

Cash Flows

(dollars in thousands)	For the year ended December 31, 2010	2009	2008
Cash flows from operating activities:			
Net income	$ **417,395**	$ 309,143	$ 217,167
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**8,346**	8,619	9,192
Premium amortization (discount accretion) on investment securities	**37,654**	17,266	5,789
(Premium amortization) discount accretion on bonds and notes	**(4,670)**	(4,631)	6,820
Provision for (reversal of allowance for) loan losses	**40,002**	46,648	43,342
(Gains) losses on other property owned, net	**5,392**	2,824	19
Net impairment losses on investments	**11,912**	26,168	10,465
(Gains) losses on investments, net	**(1,568)**	(9,918)	—
(Gains) losses on derivatives, net	**—**	(469)	359
(Gains) losses on sales of rural home loans, net	**112**	(1)	70
Net change in loans held for sale	**33,477**	43,068	25,992
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**10,064**	11,837	7,915
(Increase) decrease in due from associations	**16,795**	3,326	2,030
(Increase) decrease in other assets	**(15,447)**	(8,025)	(8,778)
Increase (decrease) in accrued interest and dividends payable	**(25,222)**	(71,105)	(25,435)
Increase (decrease) in other liabilities	**(22,860)**	24,519	28,789
Total adjustments	**93,987**	90,126	106,569
Net cash provided by (used in) operating activities	**511,382**	399,269	323,736
Cash flows from investing activities:			
Investment securities purchased	**(2,028,038)**	(2,597,275)	(3,076,950)
Investment securities sold or matured	**2,294,362**	2,474,057	1,647,834
(Increase) decrease in forward purchases - when issued securities	**(8,751)**	—	—
Net (increase) decrease in loans	**301,533**	(132,306)	(2,152,487)
(Increase) decrease in investments in other Farm Credit System institutions	**11,335**	(1,580)	(10,834)
Purchase of premises and equipment, net	**(5,218)**	(5,047)	(6,503)
Proceeds from sale of other property owned	**10,409**	5,489	—
Net cash provided by (used in) investing activities	**575,632**	(256,662)	(3,598,940)
Cash flows from financing activities:			
Bonds and notes issued	**56,271,307**	108,805,294	111,550,964
Bonds and notes retired	**(56,627,514)**	(108,104,360)	(108,446,508)
Capital stock and participation certificates issued/retired, net	**(22,095)**	3,205	69,586
Cash distribution to shareholders	**(193,150)**	(157,452)	(153,192)
Dividends paid on perpetual preferred stock	**(27,413)**	(27,413)	(27,413)
Net cash provided by (used in) financing activities	**(598,865)**	519,274	2,993,437
Net increase (decrease) in cash and cash equivalents	**488,149**	661,881	(281,767)
Cash and cash equivalents, beginning of period	**938,884**	277,003	558,770
Cash and cash equivalents, end of period	$ **1,427,033**	$ 938,884	$ 277,003
Supplemental schedule of non-cash investing and financing activities:			
Financed sales of other property owned	$ **—**	$ 19,289	$ —
Loans transferred to other property owned	**29,611**	52,971	540
Investments transferred to loans (Note 2)	**—**	91,353	—
Change in unrealized gains (losses) on investments, net	**164,791**	238,177	(318,037)
Change in fair value of derivative instruments (Note 17)	**8,781**	—	—
Employee benefit plans adjustments (Note 11)	**507**	715	586
Cumulative-effect adjustment for investment impairment accounting change (Note 3)	**—**	3,474	—
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	$ **412,166**	$ 617,638	$ 985,603

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

Notes
to the Consolidated 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 and financial services which can be offered by the Bank and the persons eligible to borrow.

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' loan portfolios and operations. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a general financing agreement between the Bank and each Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

The Associations borrow from the Bank and in turn may originate and service both long-term real estate mortgage and short- and intermediate-term loans to their members.

In addition to providing loan funds to District Associations, the Bank provides the District Associations with banking and support services such as: accounting, human resources, information systems, and marketing. The costs of these support services are included in the interest charges to the Associations, or in some cases billed directly to certain Associations that use a specific service.

The Bank is also authorized to provide, in participation with other lenders and the secondary market, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses. The Bank may also lend to other financial institutions qualified to engage in lending to eligible borrowers.

The Bank owns the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation). The Finance Corporation borrowed funds from the Bank and eligible funds from qualified companies doing business in Puerto Rico under Section 2(j) of the Puerto Rico Tax Incentive Act of 1987, as amended, or the Puerto Rico Tax Incentive Act of 1998, including corporations that had elections under Section 936 and 30(A) of the Internal Revenue Code of 1986, as amended (Code). The funds borrowed were primarily used to acquire from AgFirst the note receivable from Puerto Rico Farm Credit, ACA, and to acquire eligible loans originated by other System institutions. Savings in interest costs were, in part, passed along to borrowers in Puerto Rico who met certain eligibility requirements. The operations of the Finance Corporation were suspended and placed into inactive status effective December 31, 2005. All assets and liabilities of the Finance Corporation were transferred to its sole shareholder, AgFirst, on December 31, 2005.

The Bank, 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.

- *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 Bank conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires the management of the Bank to make estimates and assumptions that affect the amounts reported in the Consolidated 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 Consolidated Statements of Cash Flows and did not have a significant impact on the Financial Statements or the regulatory ratios.

The accompanying Consolidated Financial Statements include the accounts of the Bank (including the Finance Corporation), and reflect the investments in and allocated earnings of the service organizations in which the Bank has partial ownership interests. All significant transactions and balances between the Bank and the Finance Corporation have been eliminated.

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 Bank, 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 Consolidated Balance Sheets 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 Bank 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 Bank 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 Bank 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 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 Bank 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 Bank'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 Bank has been identified. Certain loan pools acquired from several of the District Associations are analyzed in accordance with the selling Association's allowance methodologies for assigning general and specific allowances. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Bank considers 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. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is 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 operations. Maintenance and repairs are charged to operating expense and improvements that extend the useful life of the asset are capitalized.

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 Statement of Income.

F. **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.

G. **Employee Benefit Plans:** The Bank participates in District and multi-District sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan.

Substantially all employees of the Bank may participate in either the AgFirst Farm Credit Retirement Plan or the AgFirst Farm Credit Cash Balance Retirement Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer plans under FASB accounting guidance. These two Plans are noncontributory and include eligible Bank and other District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. For participants hired prior to January 1, 2003, benefits are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are determined using a percent of eligible compensation formula. The actuarially-determined costs of these Plans are allocated to each participating entity, including the Bank, by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plans' participants. The cumulative excess of amounts funded by the Bank over the cost allocated to the Bank is reflected as prepaid retirement expense, a component of other assets in the Bank's Consolidated Balance Sheets.

In addition to providing pension benefits, the Bank provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-District sponsored retiree healthcare plan. Substantially all of the Bank's employees are eligible for those benefits when they reach early retirement age while working for the Bank. Early retirement age is defined as a minimum of age 50 and 10 years of service. 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. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Bank charges related to this plan are an allocation of District charges based on the Bank's proportional share of the plan liability. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits. The cumulative excess of cost allocated to the Bank over the amounts funded by the Bank is reflected as postretirement benefits other than pensions, a component of other liabilities in the Bank's Consolidated Balance Sheets.

Since the foregoing defined benefit plans are multi-employer plans, the Bank does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations.

Substantially all Bank employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 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 contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 3.00 percent of eligible compensation. For employees hired on or after January 1, 2003, the Bank contributes $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 eligible 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.

Additional financial information for the above three plans may be found in Note 11 and in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2010 Annual Report.

In addition to the multi-employer plans above, the Bank sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Bank's Consolidated Balance Sheets in Other Liabilities. See Note 11 for additional financial information for these plans, including the impact of FASB guidance on the defined benefit supplemental retirement plan.

H. **Income Taxes:** The Bank is exempt from federal and other income taxes as provided in the Farm Credit Act.

I. **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 Consolidated 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.

J. **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 Bank'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 Bank'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 15.

K. **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.

L. **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 Bank evaluated the impact of adoption on its loan participation agreements to ensure that loan participations would meet the requirements for sales treatment. The impact of adoption on January 1, 2010 was immaterial to the Bank's financial condition and results of operations.

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

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

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 Bank'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 debt securities held as available-for-sale investments at December 31, 2010, 2009, and 2008, follows:

	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	1,743,192	26,768	(22,570)	1,747,390	1.46
Non-Agency CMOs (a)	357,648	59	(62,181)	295,526	0.67
Asset-Backed Securities (a)	43,204	2,354	(11,121)	34,437	0.70
Total	$ 6,980,661	$ 145,558	$ (101,855)	$ 7,024,364	1.92%

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

	December 31, 2008				
(dollars in thousands)	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 CMOs	566,777	275	(162,731)	404,321	1.63
Asset-Backed Securities	124,137	–	(44,176)	79,961	3.42
Total	$ 6,619,348	$ 11,933	$ (367,724)	$ 6,263,557	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 debt securities held as held-to-maturity investments at December 31, 2010, 2009, and 2008, follows:

	December 31, 2010				
(dollars in thousands)	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%
Mission Related Investments	138,666	5,476	(1,089)	143,053	6.15
Total	$ 1,052,314	$ 63,087	$ (1,337)	$ 1,114,064	5.46%

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

	December 31, 2008				
(dollars in thousands)	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%
Mission Related Investments	219,408	6,760	(18,175)	207,993	6.13
Total	$ 1,729,600	$ 52,101	$ (18,516)	$ 1,763,185	5.29%

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	–	–	23,392	4.79	53,121	0.73	1,670,877	1.44	1,747,390	1.46
Non-Agency CMOs	–	–	–	–	–	–	295,526	0.67	295,526	0.67
Asset-Backed Securities	–	–	–	–	–	–	34,437	0.70	34,437	0.70
Total fair value	$ –	– %	$ 23,392	4.79 %	$ 54,398	0.73 %	$ 6,946,574	1.92%	$ 7,024,364	1.92%
Total amortized cost	$ –		$ 21,803		$ 54,182		$ 6,904,676		$ 6,980,661	

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 %
Mission Related Investments	140	1.66	25,346	6.65	18,095	6.36	95,085	5.98	138,666	6.15
Total amortized cost	$ 140	1.66 %	$ 25,346	6.65 %	$ 20,414	6.21 %	$ 1,006,414	5.41 %	$ 1,052,314	5.46 %
Total fair value	$ 168		$ 27,323		$ 20,795		$ 1,065,778		$ 1,114,064	

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:

	Year Ended December 31,		
(dollars in thousands)	2010	2009	2008
Proceeds from sales	$ 57,468	$ 167,262	$ –
Realized gains	1,568	9,918	–
Realized losses	–	–	–

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

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

The Bank's MBSs are collateralized by U.S. government or U.S. agency guaranteed residential mortgages and all were rated AAA/Aaa at 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 $210.5 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 Bank's portfolio rated below AAA/Aaa, the Bank has developed and submitted plans for approval by the FCA that provide that the securities may be held to maturity. The FCA has approved, with conditions, the Bank's plans for all but five investments that have recently become ineligible. The Bank 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 $316.5 million (amortized cost of $386.0 million). This represents approximately 3.89 percent (and 4.80 percent) of total fair value (and amortized cost) of the Bank'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.

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

An investment is considered impaired if its fair value is less than its cost. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following 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	(21,327)	846,761	(22,819)
Non-Agency CMOs	–	–	292,015	(62,180)	292,015	(62,180)
Asset-Backed Securities	–	–	30,328	(11,121)	30,328	(11,121)
Mission Related Investments	43,895	(864)	4,784	(225)	48,679	(1,089)
Total	$ 866,489	$ (4,885)	$ 1,279,733	$ (98,307)	$ 2,146,222	$ (103,192)

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

	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	$ (16,477)	$ 2,696,971	$ (57,507)
U.S. Govt. Agency MBS	1,209,922	(47,272)	925,178	(56,378)	2,135,100	(103,650)
Non-Agency CMOs	35,707	(12,349)	350,151	(150,383)	385,858	(162,732)
Asset-Backed Securities	–	–	70,608	(44,176)	70,608	(44,176)
Mission Related Investments	91,240	(12,337)	23,248	(5,838)	114,488	(18,175)
Total	$ 3,715,857	$ (112,988)	$ 1,687,168	$ (273,252)	$ 5,403,025	$ (386,240)

On December 31, 2010, the Bank held certain investments having continuous unrealized loss positions greater than 12 months with a fair value totaling $1.280 billion and an unrealized loss position totaling $98.3 million. FASB guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, or (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Bank intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Bank does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

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

Since the Bank does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the other-than temporary impairment of $9.2 million is separated into: (1) the estimated amount relating to credit loss ($11.9 million reflected in Net Income in the 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 Consolidated Statement of Changes in Shareholders' Equity).

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

Significant inputs used in this technique to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Bank obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The forecasted cumulative default rates used at 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 Bank has not recognized any other-than-temporary impairment as the unrealized losses resulted from non-credit related factors. The Bank has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost. For the year ended December 31, 2010, net unrealized gains of $150.4

million were recognized in other comprehensive income for not other-than-temporarily impaired available-for-sale investments.

The following schedules detail the activity related to cumulative credit losses on investments recognized in earnings as of December 31, 2010 and 2009:

(dollars in thousands)		For the Year ended December 31, 2010
Beginning balance at January 1, 2010	$	33,159
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized		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	$	44,791

(dollars in thousands)		For the Year 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		24,086
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	$	33,159

Note 4 — Loans and Allowance for Loan Losses

For a description of the Bank'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 Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

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

The credit risk rating process for loans uses a two-dimensional loan rating structure, incorporating a 14-point risk rating scale (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 Bank's loan portfolio, which includes purchased interests in loans, has been segmented by the following loan types as defined by the FCA:

- Direct Notes —direct loans to District Associations (see further discussion in Note 1).

- 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 Bank is the lessor.
- Loans to other financial institutions (OFIs) — loans to other financial institutions with which the Bank 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 Bank 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:

	December 31,		
(dollars in thousands)	**2010**	**2009**	**2008**
Direct notes	$ 14,778,448	$ 14,890,794	$ 14,997,151
Real estate mortgage	1,401,285	1,686,948	1,615,851
Production and intermediate-term	1,486,639	1,708,861	1,739,357
Agribusiness			
Loans to cooperatives	162,167	181,336	276,987
Processing and marketing	712,171	773,263	893,794
Farm-related business	61,801	59,173	78,324
Total agribusiness	936,139	1,013,772	1,249,105
Communication	113,021	104,208	155,813
Energy	296,213	304,517	220,361
Water and waste disposal	28,000	28,000	28,000
Rural residential real estate	1,831,928	1,548,829	1,188,843
Lease receivables	6,331	9,121	11,751
Loans to other financial institutions (OFIs)	5,000	7,000	7,150
Other (including mission-related)	22,161	25,269	25,948
Total Loans	$ 20,905,165	$ 21,327,319	$ 21,239,330

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations. As described in Note 1, these notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly, which further mitigates credit risk to the Bank.

The Bank may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. The following 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	$ 1,215,653	$ 33,245	$ 94,208	$ 25,581	$ 27,907	$ –	$ 1,337,768	$ 58,826
Production and intermediate-term	1,618,738	252,700	219,653	312,263	217,047	–	2,055,438	564,963
Agribusiness								
Loans to cooperatives	14,183	46,352	174,689	8,438	28,798	–	217,670	54,790
Processing and marketing	168,277	337,988	370,508	79,608	634,583	28,599	1,173,368	446,195
Farm-related business	41,374	10,580	27,764	5,866	9,523	–	78,661	16,446
Total agribusiness	223,834	394,920	572,961	93,912	672,904	28,599	1,469,699	517,431
Communication	–	30,579	149,082	4,796	–	–	149,082	35,375
Energy	245	18,805	298,508	4,765	22,434	–	321,187	23,570
Water and waste disposal	–	–	28,000	–	–	–	28,000	–
Lease receivables	6,331	–	–	–	–	–	6,331	–
Loans to OFIs	–	–	–	–	5,000	–	5,000	–
Other (including mission-related)	22,364	–	–	–	–	–	22,364	–
Total	$ 3,087,165	$ 730,249	$ 1,362,412	$ 441,317	$ 945,292	$ 28,599	$ 5,394,869	$ 1,200,165

A significant source of liquidity for the Bank is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at December 31, 2010 and indicates that approximately 12.91 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
Direct notes	$ 1,852,946	$ 5,161,728	$ 7,763,774	$ 14,778,448
Real estate mortgage	180,047	420,127	801,111	1,401,285
Production and intermediate-term	460,518	594,267	431,854	1,486,639
Agribusiness				
Loans to cooperatives	68,408	49,241	44,518	162,167
Processing and marketing	93,376	465,248	153,547	712,171
Farm-related business	20,403	23,795	17,603	61,801
Total agribusiness	182,187	538,284	215,668	936,139
Communication	–	92,403	20,618	113,021
Energy	16,855	121,353	158,005	296,213
Water and waste disposal	–	–	28,000	28,000
Rural residential real estate	–	3,095	1,828,833	1,831,928
Lease receivables	6,331	–	–	6,331
Loans to OFIs	–	5,000	–	5,000
Other (including mission-related)	–	–	22,161	22,161
Total Loans	$ 2,698,884	$ 6,936,257	$ 11,270,024	$ 20,905,165

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
Direct notes:			
Acceptable	83.96%	86.13%	96.99%
OAEM	11.28	11.26	3.01
Substandard/doubtful/loss*	4.76	2.61	–
	100.00%	100.00%	100.00%
Real estate mortgage:			
Acceptable	82.93%	85.26%	87.37%
OAEM	8.28	5.16	9.60
Substandard/doubtful/loss	8.79	9.58	3.03
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	79.49%	82.62%	94.73%
OAEM	14.46	10.47	3.90
Substandard/doubtful/loss	6.05	6.91	1.37
	100.00%	100.00%	100.00%
Agribusiness:			
Loans to cooperatives:**			
Acceptable	95.12%		
OAEM	4.88		
Substandard/doubtful/loss	–		
	100.00%		
Processing and marketing:**			
Acceptable	78.10%		
OAEM	11.48		
Substandard/doubtful/loss	10.42		
	100.00%		
Farm-related business:**			
Acceptable	99.42%		
OAEM	0.58		
Substandard/doubtful/loss	–		
	100.00%		
Total agribusiness:			
Acceptable	82.46%	76.57%	84.51%
OAEM	9.61	7.39	4.43
Substandard/doubtful/loss	7.93	16.04	11.06
	100.00%	100.00%	100.00%
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Energy and water/waste disposal:			
Acceptable	97.94%	100.00%	100.00%
OAEM	0.80	–	–
Substandard/doubtful/loss	1.26	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	100.00%	99.89%	99.94%
OAEM	–	0.11	0.06
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Lease receivables:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
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	73.93%	68.91%	100.00%
OAEM	1.41	11.40	–
Substandard/doubtful/loss	24.66	19.69	–
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	85.21%	86.60%	95.57%
OAEM	10.00	9.48	3.44
Substandard/doubtful/loss	4.79	3.92	0.99
	100.00%	100.00%	100.00%

**Certain Direct Notes were classified substandard pursuant to directives from the FCA which regulates the Bank and the District Associations. For further discussion, see Direct Notes section of Management's Discussion & Analysis of Financial Condition & Results of Operations.*

***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
Direct notes	$ –	$ –	$ –	$ 14,814,929	$ 14,814,929	$ –
Real estate mortgage	5,488	63,507	68,995	1,341,963	1,410,958	686
Production and intermediate-term	260	16,807	17,067	1,477,746	1,494,813	–
Agribusiness						
Loans to cooperatives	–	–	–	162,885	162,885	–
Processing and marketing	9	97	106	714,297	714,403	–
Farm-related business	–	–	–	61,960	61,960	–
Total agribusiness	9	97	106	939,142	939,248	–
Communication	–	–	–	113,221	113,221	–
Energy and water/waste disposal	–	–	–	326,091	326,091	–
Rural residential real estate	36,734	5,889	42,623	1,795,675	1,838,298	5,889
Lease receivables	–	–	–	6,378	6,378	–
Loans to OFIs	–	–	–	5,008	5,008	–
Other (including mission-related)	–	65	65	22,278	22,343	–
Total	$ 42,491	$ 86,365	$ 128,856	$ 20,842,431	$ 20,971,287	$ 6,575

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

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

	December 31,		
(dollars in thousands)	2010	2009	2008
Nonaccrual loans:			
Real estate mortgage	$ 74,838	$ 124,890	$ 50,434
Production and intermediate-term	35,002	54,691	9,204
Agribusiness			
Processing and marketing *	3,825		
Farm-related business *	–		
Total agribusiness	3,825	37,147	116,324
Rural residential real estate	509	579	449
Other (including mission-related)	1,546	–	–
Total nonaccrual loans	$ 115,720	$ 217,307	$ 176,411
Accruing restructured loans:			
Real estate mortgage	$ 5,010	$ –	$ –
Production and intermediate-term	9,610	–	–
Agribusiness			
Processing and marketing *	30,683		
Total agribusiness	30,683	–	–
Total accruing restructured loans	$ 45,303	$ –	$ –
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 686	$ 1,526	$ 761
Production and intermediate-term	–	21	4,500
Rural residential real estate	5,889	8,664	6,064
Total accruing loans 90 days or more past due	$ 6,575	$ 10,211	$ 11,325
Total nonperforming loans	$ 167,598	$ 227,518	$ 187,736
Other property owned	39,719	25,909	540
Total nonperforming assets	$ 207,317	$ 253,427	$ 188,276
Nonaccrual loans as a percentage of total loans	0.55%	1.02%	0.83%
Nonperforming assets as a percentage of total loans and other property owned	0.99%	1.19%	0.89%
Nonperforming assets as a percentage of capital	10.90%	16.04%	15.17%

** 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:

(dollars in thousands)	December 31, 2010	2009	2008
Impaired nonaccrual loans:			
Current as to principal and interest	$ 33,894	$ 186,768	$ 174,926
Past due	81,826	30,539	1,485
Total impaired nonaccrual loans	115,720	217,307	176,411
Impaired accrual loans:			
Restructured	45,303	–	–
90 days or more past due	6,575	10,211	11,325
Total impaired accrual loans	51,878	10,211	11,325
Total impaired loans	$ 167,598	$ 227,518	$ 187,736

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

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at 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	$ 10,691	$ 16,747	$ 5,246
Less: interest income recognized	5,955	4,369	126
Foregone interest income	$ 4,736	$ 12,378	$ 5,120

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

(dollars in thousands)	Direct Note	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including mission-related)	Total
Allowance for credit losses:										
Balance at December 31, 2009	$ –	$ 11,583	$ 11,606	$ 8,286	$ 72	$ 274	$ 12	$ –	$ 459	$ 32,292
Charge-offs	–	(42,430)	(8,590)	(7,379)	–	–	–	–	–	(58,399)
Recoveries	–	799	19	160	–	–	–	–	–	978
Provision for loan losses	–	34,884	2,903	1,655	(3)	33	(12)	–	542	40,002
Balance at December 31, 2010	$ –	$ 4,836	$ 5,938	$ 2,722	$ 69	$ 307	$ –	$ –	$ 1,001	$ 14,873
2010 allowance ending balance:										
Individually evaluated for impairment	$ –	$ 1,788	$ 2,129	$ –	$ –	$ –	$ –	$ –	$ 600	$ 4,517
Collectively evaluated for impairment	$ –	$ 3,048	$ 3,809	$ 2,722	$ 69	$ 307	$ –	$ –	$ 401	$ 10,356
Recorded investment in loans outstanding:										
Ending Balance at December 31, 2010	$ 14,814,929	$ 1,410,958	$ 1,494,813	$ 939,248	$ 113,221	$ 326,091	$ 1,838,298	$ 6,378	$ 27,351	$ 20,971,287
2010 recorded investment ending balance:										
Loans individually evaluated for impairment	$ 14,814,929	$ 243,593	$ 325,708	$ 257,290	$ –	$ 79,917	$ 1,838,298	$ 6,348	$ 10,190	$ 17,576,273
Loans collectively evaluated for impairment	$ –	$ 1,167,365	$ 1,169,105	$ 681,958	$ 113,221	$ 246,174	$ –	$ 30	$ 17,161	$ 3,395,014

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 Associations the right to sell the loans identified in the agreements to the Bank, 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 held by the Associations was $251.1 million, $204.9 million, and $260.8 million at December 31, 2010, 2009, and 2008, respectively. Fees paid to Farmer Mac for such commitments are paid by the Associations and totaled $1.0 million, $1.2 million, and $1.4 million for 2010, 2009, and 2008, respectively. Fees paid for credit guarantees by the Bank to government-sponsored enterprises (GSEs) other than Farmer Mac, primarily the Federal National Mortgage Association (FNMA), were $7.4 million, $5.3 million, and $3.2 million for 2010, 2009, and 2008, respectively. These amounts are classified as noninterest expense.

Note 5 — Premises and Equipment

Premises and equipment consisted of the following:

(dollars in thousands)	December 31, 2010	2009	2008
Land	$ 896	$ 896	$ 896
Buildings and improvements	7,172	7,083	6,375
Furniture and equipment	55,315	66,002	59,701
Work in progress	620	–	2,115
	64,003	73,981	69,087
Less: accumulated depreciation	52,642	59,492	51,026
Total	$ 11,361	$ 14,489	$ 18,061

Note 6 — Other Property Owned

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

(dollars in thousands)	December 31, 2010	2009	2008
Gains (losses) on sale, net	$ 1,672	$ –	$ –
Carrying value adjustments	(7,197)	–	–
Operating income (expense), net	133	(2,824)	(19)
Total	$ (5,392)	$ (2,824)	$ (19)

Deferred gains on sales of other property owned totaled $9.9 million, $9.3 million, and $0 at December 31, 2010, 2009, and 2008, respectively. Gains were primarily deferred as the sales involved financing from the Bank. Deferred gains of $7.6 million are included in Loans and deferred gains of $2.3 million are included in Other Liabilities in the Consolidated Balance Sheets.

Note 7 — Other Assets and Other Liabilities

A summary of other assets and other liabilities follows:

(dollars in thousands)	December 31, 2010	2009	2008
Other assets:			
Unamortized debt issue costs	$ 20,661	$ 17,832	$ 20,647
Prepaid retirement expenses	20,091	21,600	21,073
Federal Home Loan Mortgage Corporation principal receivable	5,555	6,206	1,721
Derivative assets	62,245	70,041	124,982
Receivable from third party sub-servicer	42,110	25,749	19,179
Other	15,279	16,862	17,604
Total	$ 165,941	$ 158,290	$ 205,206
Other liabilities:			
Accounts payable	$ 4,395	$ 6,641	$ 5,710
Farm Credit System Ins. Corp. payable	12,268	48,029	35,197
Derivative liabilities	8,781	229	469
Postretirement benefits other than pensions	15,559	15,483	15,509
Cash collateral pledged from derivative counterparties	18,315	14,065	7,963
Payroll liabilities	6,194	6,071	5,586
Other	14,345	11,921	10,342
Total	$ 79,857	$ 102,439	$ 80,776

Note 8 — 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.

related derivative financial instruments.

Maturities	Bonds Amortized Cost	Bonds Weighted Average Interest Rate	Discount Notes Amortized Cost	Discount Notes Weighted Average Interest Rate	Total Amortized Cost	Total 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.

Note 9 — 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 10 — Shareholders' Equity

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

A. **Description of Equities:** In accordance with the Farm Credit Act and the Bank's capitalization bylaws, the Bank is authorized to issue and have outstanding Classes B, C, and D Common Stock, Participation Certificates, Preferred Stock, and other classes of equity as may be provided for in the bylaws. All Common Stock and Participation Certificates have a par or face value of five dollars ($5.00) per share.

   The Bank had the following shares of common equities outstanding at December 31, 2010:

		Shares Outstanding *(dollars in thousands)*	
Class	**Protected Status**	**Number**	**Aggregate Par Value**
B Common/Nonvoting	No	1,600,000	$ 8,000
C Common/Voting	No	79,843,543	399,218
D Common/Nonvoting	No	1,975,829	9,879
Participation Certificates/Nonvoting	No	47,228	236
Total Capital Stock and Participation Certificates		83,466,600	$ 417,333

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:** District Associations are required to maintain ownership in the Bank in the form of Class B or Class C Common Stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital levels.

   Additionally, the Bank has issued Class D Common Stock in connection with participations purchased by the Bank from other System institutions. Class D Common Stock issued in connection with participations has no voting rights. Such Stock may be retired at the discretion of the Board, and if retired, shall be retired at book value not to exceed its par value.

   Class D Common Stock shall also be purchased by borrowers eligible to hold it as a condition for obtaining a loan in an amount as may be determined by the Board at its discretion within a range between a minimum of two percent (2.00%) of the loan amount or $1 thousand, whichever is less, and a maximum not to exceed ten percent (10.00%) of the loan amount. The Bank currently has no such loans outstanding.

D. **Other Equity:** At the inception of each Other Financing Institution (OFI) loan, the Bank requires OFIs to make cash purchases of participation certificates in the Bank. The Bank has a first lien on these equities for the repayment of any indebtedness to the Bank.

E. **Order of Priority Upon Impairment or Liquidation:**

   Impairment

   Net losses, to the extent they exceed unallocated surplus, shall, except as otherwise provided in the Act, be treated as impairing Stock in the following order:

   First, Class B Common Stock, Class C Common Stock, Class D Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of Stock then issued and outstanding, until such Stock is fully impaired; and

   Second, Preferred Stock in proportion to the number of shares of each class and series thereof then issued and outstanding (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in reverse order of priority first to the most junior ranking series and then successively to each next most junior ranking series) and consistent with the terms of each such class or series until such Stock is fully impaired; and

Third, subject to the Act, as amended, and the regulations thereunder, in such manner as shall be determined by the Board.

Liquidation

In the event of liquidation or dissolution of AgFirst, any assets of AgFirst remaining after payment or retirement of all liabilities shall be distributed in the following order or priority:

First, to the holders of Preferred Stock, in proportion to the number of shares of each class and series thereof then issued and outstanding and consistent with the terms of each such series until an amount equal to the liquidation preference provided for in the terms of such series of Preferred Stock has been distributed to such holders (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in order of priority first to the most senior ranking series and then successively to each next most senior ranking series); and

Second, to the holders of Class B Common Stock, Class C Common Stock, Class D Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of Stock then issued and outstanding, until an amount equal to the aggregate par or face value of all such shares or units has been distributed to such holders; and

Third, in accordance with the memorandum accounting established in the Agreement and Plan of Consolidation between The Farm Credit Bank of Columbia and The Farm Credit Bank of Baltimore, dated as of October 31, 1994; and

Fourth, all remaining assets of AgFirst after such distributions shall be to the extent practicable distributed to all Stockholders and holders of Participation Certificates on a patronage basis.

F. **Regulatory Capitalization Requirements and Restrictions:** FCA's capital adequacy regulations require the Bank 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 FCA that, if undertaken, could have a direct material effect on the Bank's operations and Consolidated Financial Statements. The Bank is 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. The Bank's permanent capital, total surplus and core surplus ratios at December 31, 2010 were 21.22 percent, 21.19 percent and 13.79 percent, respectively. The FCA notified AgFirst that the June 2007 issuance of $250.0 million of Perpetual Non-Cumulative Subordinated Preferred Stock 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. At December 31, 2010, the full amount of this preferred stock issuance could be included in core surplus.

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, the Bank's net collateral ratio was 106.44 percent. For purposes of calculating this ratio, net collateral is not risk adjusted.

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. The Bank has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

G. **Accumulated Other Comprehensive Income (Loss):** Accumulated other comprehensive income (loss) at December 31 was comprised of the following components:

(dollars in thousands)	2010	2009	2008
Unrealized (losses) gains on investments available-for-sale	$ 43,703	$ (121,088)	$ (355,791)
Employee benefit plan adjustments	(2,623)	(2,116)	(1,401)
Cash flow hedges	(8,751)	–	–
Total accumulated other comprehensive income (loss)	$ 32,329	$ (123,204)	$ (357,192)

Note 11 — Employee Benefit Plans

The Bank participates in four District sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan. Financial information regarding each of these plans follows.

Substantially all employees of the Bank are eligible to participate in either the defined benefit final average pay retirement plan (the FAP Plan) or the defined benefit cash balance retirement plan (CB Plan). These two Plans are noncontributory and include eligible Bank and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution into the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Bank, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. As a participant in these plans, the Bank funded $6.8 million for 2010, $8.3 million for 2009, and $4.1 in 2008. Plan expenses included in employee benefit costs were $8.3 million for 2010, $7.8 million for 2009, and $1.7 million for 2008. The cumulative excess of amounts funded by the Bank over the cost allocated to the Bank is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Bank provides certain health care benefits for eligible retired employees (other postretirement benefits) through a multi-District sponsored retiree healthcare plan. Substantially all of the Bank employees may become eligible for the benefits if they reach early retirement age while working for the Bank. Early retirement age is defined as a minimum of age 50 and 10 years of service. 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. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Bank charges related to this plan are an allocation of District charges based on the Bank's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $989 thousand for 2010, $884 thousand for 2009, and $862 thousand for 2008. The cumulative excess of cost allocated to the Bank over the amounts funded by the Bank is reflected as postretirement benefits other than pensions, a component of other liabilities in the Bank's Consolidated Balance Sheets.

The Bank also participates in the defined contribution Farm Credit Benefit Alliance (FCBA) 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 contributes $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 contributes $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 included in salaries and employee benefit costs were $1.0 million, $973 thousand, and $871 thousand for the years ended December 31, 2010, 2009, and 2008, respectively.

In addition to the multi-employer plans above, the Bank sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Bank's Consolidated Balance Sheets in Other Liabilities. The Bank funded the benefit payments of $252 thousand for each of the years of 2010, 2009, and 2008 for the defined benefit supplemental retirement plan. The expenses of these nonqualified plans included in the Bank's employee benefit costs were $62 thousand, $55 thousand, and $48 thousand for the years ended December 31, 2010, 2009, and 2008, respectively.

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 Bank 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) is reflected as an adjustment to beginning 2008 unallocated retained earnings. As a result, the Bank decreased unallocated retained earnings by $138 thousand for the single employer defined benefit supplemental plan.

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 AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2010, 2009, and 2008, $507 thousand, $715 thousand and $448 thousand, respectively, has been recognized as a net debit to AOCI to reflect these elements.

The supplemental retirement plan is unfunded and had a projected benefit obligation of $8.0 million and a net under-funded status of $8.0 million at December 31, 2010. Net periodic pension cost for 2010 was $764 thousand. Assumptions used to determine the projected benefit obligation as of December 31, 2010 included a discount rate of 5.65 percent and a rate of compensation increase of 4.50 percent. Additional financial information for the four District sponsored multi-employer plans may be found in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2010 Annual Report.

Note 12 — Related Party Transactions

As discussed in Note 1, the Bank lends funds to the District Associations primarily to fund their loan portfolios. Further disclosure regarding these related party transactions is found in Notes 4, 10, and 14.

Interest income recognized on direct notes receivable from District Associations was $465.8 million, $536.9 million and $709.0 million for 2010, 2009, and 2008, respectively.

The Bank has had participation loans outstanding during the last year to certain of its directors, their immediate family members, and organizations with which the directors are affiliated. These loans were made in the ordinary course of business, and were made on the same terms, including interest rate, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons. No loan to a director, or to any organization affiliated with such person, or to any immediate family member who resides in the same household as such person or in whose loan or business operation such person has a material financial or legal interest, involved more than the normal risk of collectability.

Note 13 — Regulatory Enforcement Matters

At December 31, 2010, there were no regulatory enforcement matters or agreements in place with the Bank and FCA.

Note 14 — Commitments and Contingencies

The Bank has various contingent liabilities and commitments outstanding as discussed elsewhere in these notes to the Consolidated Financial Statements. While primarily liable for its portion of System bonds and notes, the Bank 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 may participate in credit related financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers or the borrowers of the District Associations. These financial instruments include standby letters of credit, various guarantees and commitments to extend credit.

The Bank participates 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 Bank 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 Bank's inventory. At December 31, 2010, the Bank's inventory of standby letters of credit had a fair value of $1.3 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 has related to these instruments as of December 31, 2010.

At December 31, 2010, $1.35 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 the Bank 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 financial position of the Bank.

Note 15 — Fair Value Measurement

As discussed in Note 2, 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 requires fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. For the Bank, these assets and liabilities consist primarily of investments available-for-sale, highly-liquid funds, derivative assets and liabilities, assets held in trust funds, standby letters of credit, impaired loans, other property owned, and collateral liabilities.

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

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

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

Level 1

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

The Bank's Level 1 assets at 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 Bank's investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

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

The Bank's Level 2 assets and liabilities at 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 costs to sell, was less than the principle balance of the loan, specific reserves were established for these loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Level 3 assets at 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	–	1,747,390	–	1,747,390
Non-Agency CMOs	–	–	295,526	295,526
Asset-Backed Securities	–	–	34,437	34,437
Total Investments available-for-sale	–	6,694,401	329,963	7,024,364
Commercial paper, Bankers' Acceptances, CD's & Others	–	52,000	–	52,000
Federal funds sold, securities purchased under resale agreements, and other	–	8,744	–	8,744
Interest rate swaps and other financial instruments	–	62,245	–	62,245
Assets held in trust funds	2,983	–	–	2,983
Total Assets	$ 2,983	$ 6,817,390	$ 329,963	$ 7,150,336
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ 8,781	$ –	$ 8,781
Collateral liabilities	–	18,315	–	18,315
Standby letters of credit	–	–	1,263	1,263
Total Liabilities	$ –	$ 27,096	$ 1,263	$ 28,359

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

	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	2,435	–	–	2,435
Total Assets	$ 2,435	$ 6,496,208	$ 79,961	$ 6,578,604
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ 469	$ –	$ 469
Collateral liabilities	–	7,963	–	7,963
Standby letters of credit	–	–	2,301	2,301
Total Liabilities	$ –	$ 8,432	$ 2,301	$ 10,733

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 Bank had no other transfers of assets or liabilities into or out of Level 1 or Level 2 during 2009 and the Bank had no transfers of assets or liabilities into or out of Level 1 or Level 2 during 2010.

(dollars in thousands)	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2010	$ 47,465	$ 360,027	$ 2,461
Total gains or (losses) realized/unrealized:			
Included in earnings	(7,959)	(3,953)	–
Included in other comprehensive income (loss)	10,928	38,716	–
Purchases, sales, issuances and settlements, net	(15,997)	(99,264)	(1,198)
Transfers in and/or out of level 3	–	–	–
Balance at December 31, 2010	$ 34,437	$ 295,526	$ 1,263

(dollars in thousands)	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2009	$ 79,961	$ –	$ 2,301
Total gains or (losses) realized/unrealized:			
Included in earnings	(20,949)	(3,775)	–
Included in other comprehensive income (loss)	27,955	46,108	–
Purchases, sales, issuances and settlements, net	(39,502)	(79,626)	160
Transfers in and/or out of level 3	–	397,320	–
Balance at December 31, 2009	$ 47,465	$ 360,027	$ 2,461

(dollars in thousands)	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2008	$ 166,551	$ –	$ 2,322
Total gains or (losses) realized/unrealized:			
Included in earnings	(10,465)	–	–
Included in other comprehensive income (loss)	(26,028)	–	–
Purchases, sales, issuances and settlements, net	(50,097)	–	(21)
Transfers in and/or out of level 3	–	–	–
Balance at December 31, 2008	$ 79,961	$ –	$ 2,301

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.

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

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

(dollars in thousands)	December 31, 2008 Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 103,631	$ 103,631	$ (32,573)

Note 16 — Disclosures about Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Bank'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	$ 20,956,414	$ 21,073,358	$ 21,370,251	$ 21,509,619	$ 21,283,179	$ 21,604,573
Derivative assets	$ 62,245	$ 62,245	$ 70,041	$ 70,041	$ 124,982	$ 124,982
Cash and cash equivalents	$ 1,427,033	$ 1,427,033	$ 938,884	$ 938,884	$ 277,003	$ 277,003
Investment securities	$ 8,095,248	$ 8,138,428	$ 8,245,741	$ 8,264,765	$ 8,011,337	$ 8,026,742
Assets held in trust funds	$ 2,983	$ 2,983	$ 2,825	$ 2,825	$ 2,435	$ 2,435
Financial liabilities:						
Systemwide Debt Securities	$ 28,382,546	$ 28,284,708	$ 28,776,211	$ 28,794,187	$ 28,206,326	$ 28,419,610
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 Bank's financial instruments for which it is practicable to estimate that value follows:

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

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

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

C. **Investment Securities:** Fair value is primarily based upon prices obtained from a third party valuation service. See additional information in Note 15.

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

E. **Derivative Instruments:** The fair value of derivatives is the estimated amount to be received or paid to replace the instruments at the reporting date, considering current and projected interest rates. Where actively quoted market prices do not exist, estimated fair values are determined through internal market valuation models. See additional information in Note 15.

F. **Assets Held In Trust Funds:** See Note 15 for discussion of estimation of fair value for these assets.

Note 17 — Derivative Financial Instruments and Hedging Activities

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

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

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

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

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

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

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

Fair-Value Hedges

For derivative instruments designated as a fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the 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 of net gain (loss) recognized in the Consolidated 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 Bank 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 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 Bank's Consolidated 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 18 — Additional Derivative Financial Instruments and Other Financial Instruments Disclosures

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 Interest Rate Derivative Products and Other Financial Instruments 2011	2012	2013	2014	2015	2016 and after	Total	Fair Value
Systemwide Debt Securities:								
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	56	–	14	23	7,737	7,683
Weighted average interest rate	0.26%	0.27%	0.27%	–	0.12%	0.11%	0.26%	
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 19 — Quarterly Financial Information (Unaudited)

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

(dollars in thousands)	2010 First	Second	Third	Fourth	Total
Net interest income	$ 140,354	$ 140,292	$ 140,511	$ 150,089	$ 571,246
Provision for (reversal of allowance for) loan losses	4,430	18,052	11,144	6,376	40,002
Noninterest income (expense), net	(19,324)	(32,173)	(28,837)	(33,515)	(113,849)
Net income	$ 116,600	$ 90,067	$ 100,530	$ 110,198	$ 417,395

	2009 First	Second	Third	Fourth	Total
Net interest income	$ 107,547	$ 117,654	$ 124,173	$ 140,287	$ 489,661
Provision for (reversal of allowance for) loan losses	16,701	18,194	19,493	(7,740)	46,648
Noninterest income (expense), net	(38,332)	(35,531)	(27,141)	(32,866)	(133,870)
Net income	$ 52,514	$ 63,929	$ 77,539	$ 115,161	$ 309,143

	2008 First	Second	Third	Fourth	Total
Net interest income	$ 78,440	$ 86,546	$ 97,955	$ 103,580	$ 366,521
Provision for (reversal of allowance for) loan losses	660	6,065	2,799	33,818	43,342
Noninterest income (expense), net	(28,790)	(23,432)	(17,002)	(36,788)	(106,012)
Net income	$ 48,990	$ 57,049	$ 78,154	$ 32,974	$ 217,167

Note 20 – 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 21 - Subsequent Events

The Bank has evaluated subsequent events and except for the merger activity discussed in Note 20 above, has determined there are no other subsequent events requiring disclosure through March 14, 2011, which is the date the financial statements were issued.

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