



AgFIRST FARM CREDIT BANK

Quarterly Report

First Quarter 2010

FIRST QUARTER 2010

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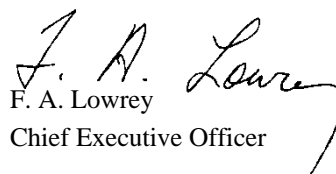
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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2010 quarterly report of AgFirst Farm Credit Bank, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Paul M. House
Chairman of the Board



F. A. Lowrey
Chief Executive Officer



Charl L. Butler
Chief Financial Officer

May 7, 2010

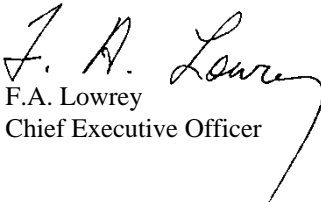
Report on Internal Control Over Financial Reporting


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

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

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 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 concluded that as of March 31, 2010, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2010.


F.A. Lowrey
Chief Executive Officer


Charl L. Butler
Chief Financial Officer

May 7, 2010

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three month period ended March 31, 2010. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements and the 2009 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

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

FINANCIAL CONDITION

Loan Portfolio

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

AgFirst Loan Portfolio

(dollars in thousands)

	March 31, 2010		December 31, 2009		March 31, 2009	
Direct Notes	\$ 14,297,257	69.24%	\$ 14,890,793	69.82%	\$ 14,583,303	69.82%
Participations/Syndications purchased, net	4,604,384	22.30	4,758,466	22.31	4,891,423	23.42
Correspondent Lending	1,740,498	8.43	1,671,060	7.84	1,407,147	6.73
Loans to OFIs	6,500	0.03	7,000	0.03	6,000	0.03
Total	\$ 20,648,639	100.00%	\$ 21,327,319	100.00%	\$ 20,887,873	100.00%

Total loans outstanding were \$20.649 billion at March 31, 2010, a decrease of \$678.7 million, or 3.18 percent, compared to total loans outstanding at December 31, 2009. The decline in loan volume reflected continued weak loan demand, a trend that began in late 2008 and continued through 2009. For several years prior to 2008, loan growth had been very strong. This abrupt change in loan demand was a result of the downturn in the general economy that started in 2008. Future loan demand is very difficult to predict. However, it is expected to remain weak at least for the majority of 2010.

The weakened economy has affected the Bank's and District Associations' current and prospective customers in a number of ways, including lowering the demand and price for certain agricultural products and lowering the value of 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, customers have reduced production, delayed expansion plans, and generally taken actions to preserve their investment and working capital. All of these factors have contributed to the lower loan demand throughout the District.

Credit Quality

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

AgFirst Total Loan Portfolio Credit Quality as of:			
Classification	March 31, 2010	December 31, 2009	March 31, 2009
Acceptable	86.74%	86.60%	92.90%
OAEM *	9.50%	9.48%	5.87%
Substandard	3.76%	3.92%	1.23%
Doubtful	0.00%	0.00%	0.00%

* Other Assets Especially Mentioned

Taken as a whole, the agricultural industry has been less severely impacted by the adverse economic environment than many other industry segments. However, many customers in the District rely on off-farm income. While this tends to diversify and strengthen the performance of the loan portfolio over time, during periods of adversity in the general economy, these customers, and consequently the Bank's and District's credit quality, are negatively impacted in a manner similar to commercial bank customers.

Certain commodity groups within the broad agricultural segment have also been adversely affected in the current economic cycle. As an example, housing-related industries such as timber, sawmills, nurseries, and sod operations remain stressed. Their improvement is dependent on general economic conditions such as employment levels and housing market pricing. Declining real estate values negatively impacted the credit quality of certain loans secured by transitional agricultural real estate. Transitional agricultural real estate is defined as agricultural land, usually lying in the path of economic development, where the land value cannot be supported solely by agricultural activity.

Loan portfolio credit quality was adversely affected by deteriorating economic conditions, including lower real estate values, in certain geographic areas within the Bank's and District's chartered territory, particularly in Florida. Beginning in 2008, real estate values declined, population growth slowed, and housing foreclosures increased in Florida. Other areas of the District experienced a less severe reduction in real estate values. However, real estate sales continue to be weak throughout.

In 2009, over-supply in the pork and dairy industries affected pricing for these commodities and resulted in lower revenue for many producers. Higher input prices, such as corn and other feed, were also prevalent during certain periods of 2009, which further reduced profit margins for these producers as well as those in other segments that use these inputs. Supplies of pork and dairy products appear to be easing, which will result in improved pricing. Also, the costs of grain, oil, and certain other inputs have moderated, which should prove beneficial to livestock producers.

Although the ethanol sector has stabilized, profit margins remain low, making the industry vulnerable to fluctuations in corn prices and blended gasoline demand. At March 31, 2010, ethanol loans in the Bank's nonperforming assets were \$14.9 million.

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 may be stabilizing, some problem assets will take an extended period of time to fully resolve, due to their dependency on general economic conditions, including employment, the housing market, and transitional real estate values.

Management reviews on an ongoing basis the Bank's acceptable level of risk tolerance at the individual loan and portfolio levels. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

Direct Notes

AgFirst's primary line of business is to provide funds 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. All assets of the Associations secure the Direct Notes. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations. Each GFA contains minimum borrowing base margins, capital, and earnings requirements that must be maintained by the Association.

At March 31, 2010, total Direct Note volume outstanding was \$14.297 billion, a decrease of \$593.5 million, or 3.99 percent, compared to December 31, 2009. Weak loan demand, as discussed above, and a generally more conservative credit approach were the primary reasons for the decline in growth. Also, in some cases, business development resources have been redirected to problem asset management.

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

Direct Note Credit Quality as of:			
Classification	March 31, 2010	December 31, 2009	March 31, 2009
Acceptable	86.31%	86.13%	94.23%
OAEM *	11.19%	11.26%	5.77%
Substandard	2.50%	2.61%	0.00%
Doubtful	0.00%	0.00%	0.00%

* Other Assets Especially Mentioned

As of March 31 2010, fifteen of the twenty-two District Associations' Direct Notes, representing 86.31 percent of the Direct Note portfolio, were classified acceptable. Six of the remaining Direct Notes, representing 11.19 percent of the portfolio, were classified as Other Assets Especially Mentioned (OAEM), and one of the Direct Notes, representing 2.50 percent of the portfolio, was classified as substandard (adverse). Sixteen Associations met or exceeded the minimum GFA requirements. As of December 31, 2009, three Associations were in violation of earnings requirements as defined in the GFA, two Associations were in violation of both the borrowing base margins and earnings GFA requirements, and one Association was in violation of both the earnings and capital GFA requirements. The Bank approved temporary waivers of the defaults at December 31, 2009. During the first quarter of 2010, following a review of the respective business plans submitted by these six Associations to achieve compliance with the covenants, the Bank approved an extension of the temporary waivers of the defaults and allowed these six Associations to operate under special credit arrangements pursuant to their respective GFA. These six Associations have continued to perform under the respective special credit arrangements. As mentioned above, all of the assets of the various Associations secure the 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. Therefore, none of the Direct Notes are considered impaired. All twenty-two of the Direct Notes are performing. At March 31, 2010, all Associations were in compliance with the borrowing base margin and capital covenants of the GFA.

Participations/Syndications

AgFirst has a participations/syndications portfolio, which consists primarily of commercial agricultural and agribusiness loans. As of March 31, 2010, the participations/syndications portfolio totaled \$4.604 billion. The size of this portfolio decreased \$154.1 million, or 3.24 percent, from December 31, 2009 to March 31, 2010. As with the Direct Notes, borrower demand in this portfolio is anticipated to be moderate through most of 2010.

The credit quality of the participations/syndications portfolio showed a decline during the past twelve months. AgFirst employs a number of risk 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.

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

Participations/Syndications Credit Quality as of:			
Classification	March 31, 2010	December 31, 2009	March 31, 2009
Acceptable	83.19%	83.44%	87.02%
OAEM *	7.76%	7.18%	7.76%
Substandard	9.05%	9.38%	5.22%
Doubtful	0.00%	0.00%	0.00%

* Other Assets Especially Mentioned

Correspondent Lending

AgFirst also has a correspondent lending portfolio, which consists primarily of first lien residential mortgages. As of March 31, 2010, the correspondent lending portfolio totaled \$1.740 billion. From December 31, 2009 to March 31, 2010, this portfolio increased \$69.4 million, or 4.16 percent. The increase in volume of this portfolio continues to be influenced by refinancing activity generated by the lower interest rate environment and government incentives.

Essentially all loans in the correspondent lending portfolio are guaranteed by the Federal National Mortgage Association (Fannie Mae) and/or the Federal Agricultural Mortgage Corporation (Farmer Mac), thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par. At March 31, 2010, 99.67 percent of the correspondent lending portfolio was classified as Acceptable, and 0.33 percent was classified as OAEM.

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

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank at March 31, 2010, were \$218.2 million compared to \$217.3 million at December 31, 2009. Nonaccrual loans increased \$933 thousand for the three months ended March 31, 2010 primarily due to the transfers into nonaccrual of \$30.9 million (which is composed primarily of two borrower relationship of \$27.9 million). This increase was offset by reinstatements of \$15.2 million to accrual status (which is composed primarily of one borrower relationship of \$14.9 million), charge-offs and charge-downs of nonaccrual loans of \$9.9 million, and repayments of \$4.5 million. The six largest nonaccrual borrower relationships accounted for 60.22 percent of the total. These six largest nonaccrual relationships were classified in the swine (27.79 percent of the six largest total), other real estate (23.02 percent), forestry (22.40 percent), cattle (15.42 percent), and ethanol (11.37 percent) segments. Some of these nonaccrual loans are secured by transitional agricultural real estate, which has been negatively impacted by declining real estate values as discussed above. Nonaccrual loans were 1.06 percent of total loans outstanding at March 31, 2010.

Other property owned (OPO) consists primarily of assets once held as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO can consist of real estate, equipment, and equity interests in companies or partnerships. OPO decreased \$6.2 million during the first three months of 2010 and totaled \$19.7 million at March 31, 2010. This decrease is due primarily to the disposition of the Bank's interest in an ethanol production facility through a \$5.8 million sale. Total gains of \$1.6 million from this sale were deferred and will be recognized in future periods in accordance with accounting guidance. The largest OPO holding at March 31, 2010, which consisted of several parcels of land, was \$13.7 million (69.6 percent of the total).

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was \$27.0 million at March 31, 2010, as compared with \$32.3 million at December 31, 2009. The decrease during the three months ended March 31, 2009 of \$5.3 million was primarily due to charge-offs of \$9.9 million for loan amounts determined to be uncollectible, offset by provision expense of \$4.4 million (see discussion of provision expense in the *Provision for Loan Losses* section below). Charge-offs were related primarily to the forestry (59.26 percent of the total) and other real estate (33.79 percent of the total) segments. The allowance at March 31, 2010 included specific reserves of \$15.4 million primarily related to credits for participation borrower relationships within the swine, forestry, nursery/greenhouses, and cattle industries (77.00 percent of the total) and \$11.6 million of general reserves attributed to participation loans. The total allowance at March 31, 2010 is comprised primarily of reserves for the swine (22.83 percent), forestry (18.10 percent), nursery/greenhouses (7.74 percent), processing (6.81 percent), and cattle (5.04 percent) segments. Declining transitional agricultural real estate values impacted charge-offs and reserves in several of the loan segments, including forestry, cattle, and citrus. See Note 3, *Allowance for Loan Losses and Impaired Loans*, in the Notes to the Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding increases to the allowance from provision expense.

Liquidity and Funding Sources

One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. The primary source of funds for AgFirst is the issuance of Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation. At March 31, 2010, AgFirst had \$28.01 billion in total debt outstanding compared to \$28.69 billion at December 31, 2009. In addition, other interest-bearing liabilities for AgFirst included \$225.0 million in Mandatorily Redeemable Preferred Stock in both periods. Total interest-bearing liabilities decreased primarily due to the decrease in loan volumes as discussed in this report. Despite some continuing adversity in the financial debt markets, the Bank anticipates continued access to funding through the issuance of Farm Credit System debt.

AgFirst maintains a \$150.0 million unsecured committed line of credit facility from its primary commercial depository bank. The line of credit is tied to AgFirst's master cash management clearing account.

Cash and cash equivalents, which decreased \$29.5 million from December 31, 2009 to a total of \$909.4 million at March 31, 2010, are primarily 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.

Investment securities totaled \$8.22 billion, or 27.28 percent of total assets at March 31, 2010, compared to \$8.23 billion, or 26.65 percent, as of December 31, 2009. Investment securities decreased \$10.3 million, 0.13 percent, compared to December 31, 2009, primarily as management maintained the investment securities portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

As of March 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. At March 31, 2010, AgFirst's coverage was 161 days. The Bank's cash position provided 18 days of the total 161 days of liquidity coverage. Investment securities fully backed by the U.S. government provided an additional 88 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 161 days.

Investment securities classified as being available-for-sale totaled \$6.91 billion at March 31, 2010. Available-for-sale investments at March 31, 2010 included \$2.98 billion in Agency Collateralized Mortgage Obligations (CMOs), \$3.55 billion in Agency Adjustable Rate Mortgages, \$343.6 million in non-agency CMOs, and \$40.0 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.

Investment securities classified as being held-to-maturity totaled \$1.30 billion at March 31, 2010. These held-to-maturity investments were primarily Rural Housing Mortgage-Backed Securities purchased under a Mission Related Investment pilot program approved by the FCA in 2005.

Total net unrealized losses relating to the available-for-sale securities decreased \$40.9 million during the three months ended March 31, 2010 to a total of \$80.2 million at March 31, 2010. These net unrealized losses are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized losses stem from both normal market factors such as the current interest rate environment and some continued illiquidity in certain mortgage debt security markets. The Bank also recognized credit-related losses of \$6.8 million for other-than-temporary impairment during the three months ended March 31, 2010 on asset-backed securities and non-agency CMO securities in its portfolio as discussed below.

The Bank has low exposure to investments backed by subprime mortgages. Asset-backed securities with subprime exposure totaled \$40.0 million, which represented 0.58 percent of the available-for-sale liquidity investment portfolio and 0.49 percent of the total investment security portfolio at March 31, 2010. The amortized cost of these investment securities totaled \$57.0 million and a negative market value adjustment for asset-backed securities of \$17.0 million was included in the total \$80.2 million of net unrealized losses reflected in AOCI at March 31, 2010. The Bank's asset-backed securities not rated in the highest category (AAA/Aaa) by at least one of the Nationally Recognized Statistical Rating Organizations (NRSROs) at March 31, 2010, totaled \$28.7 million (amortized cost value of \$44.5 million). Despite the uncertainty in the mortgage securities markets, which has adversely impacted the market value of all asset-backed securities, payment shortfalls on these securities have totaled only \$8.0 million life to date (\$2.3 million in 2010).

Non-agency CMOs have also experienced significant market pricing volatility. Bank non-agency CMOs totaled \$343.6 million, which represented 4.97 percent of the available-for-sale liquidity investment portfolio and 4.18 percent of the total investment security portfolio at March 31, 2010. The amortized cost of these investment securities totaled \$436.9 million and a negative market value adjustment for non-agency CMOs of \$93.3 million was included in the total \$80.2 million of net unrealized losses reflected in AOCI at March 31, 2010 as discussed above. The Bank's non-agency CMO securities not rated in the highest category (AAA/Aaa) by at least one of the NRSROs at March 31, 2010 had a total fair value of \$202.8 million and an amortized cost of \$264.0 million. All of the Bank's non-agency CMO securities continue to perform.

The FCA considers asset-backed and mortgage-backed investment securities rated below AAA/Aaa by the NRSROs to be ineligible and requires System institutions to divest their portfolios of such investments. However, System institutions may seek approval to continue to hold these investments. For each of the investment securities in the Bank's portfolio at March 31, 2010 rated below AAA/Aaa (total fair value of \$231.4 million and amortized cost of \$308.5 million), the Bank has developed and submitted plans for approval by the FCA that provide that the securities may continue to be held. The FCA has approved with conditions the Bank's plans for all except those investments that have most recently become ineligible, which the FCA is still in the process of reviewing. For purposes of the permanent capital, total surplus, and core surplus regulatory ratios, certain Bank ineligible securities at March 31, 2010 are risk weighted 200 percent, 100 percent, or 50 percent instead of the standard 20 percent in calculating the risk adjusted assets amount. These ineligible securities had a fair value of \$105.0 million and amortized cost of \$136.6 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 \$126.4 million and amortized cost of \$171.8 million at March 31, 2010. For purposes of the net collateral ratio, all ineligible investments are stated at lower of cost or market. See the *Capital Resources* section below for further discussion of the regulatory ratios. In addition, all ineligible investments are excluded from liquidity coverage as defined above.

The Bank performs periodic credit reviews, including other-than-temporary impairment analysis, on its entire investment securities portfolio. Additional analysis for each security not rated in the top category by the NRSROs is performed using a cash flow model with key assumptions and performance factors which may include credit default rate, prepayment rate, and loss severity. The objective is to quantify any 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 \$6.8 million on asset-backed securities and non-agency CMOs in its portfolio during the three

months ended March 31, 2010, which was included in Net 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.

For all other investments, the Bank has not recognized any other-than-temporary impairment as it has determined that the decline in market value was caused primarily by reduced liquidity in the mortgage securities markets or other normal market 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.

For purposes of determining the fair values of the modeled securities and the resulting unrealized gain/loss impact through AOCI, 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. 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 fairly reflects the price expected to be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date. The modeling process was factored into the pricing for the asset-backed and non-agency CMO security portfolios.

Capital Resources

Total shareholders’ equity increased \$152.6 million from December 31, 2009 to March 31, 2010. This 9.66 percent net increase is primarily attributed to an increase in unallocated retained earnings from net income of \$116.6 million and a decrease of \$40.9 million in unrealized losses on investments available-for-sale, a component of AOCI. Total unrealized losses on investments available-for-sale were \$80.2 million at March 31, 2010.

As of March 31, 2010, AgFirst exceeded the minimum permanent capital, core surplus, total surplus, and net collateral ratio requirements established by FCA Regulations. In conjunction with the issuance of the Mandatorily Redeemable Preferred Stock, FCA requires AgFirst to maintain a minimum net collateral ratio of 104.00 percent compared to the System regulatory minimum of 103.00 percent. AgFirst reported the following regulatory ratios:

	Regulatory Minimum	AgFirst Ratio as of	
		3/31/10	12/31/09
Permanent Capital Ratio	7.00%	16.39%	16.86%
Total Surplus Ratio	7.00%	16.36%	16.83%
Core Surplus Ratio	3.50%	9.31%	9.85%
Net Collateral Ratio	104.00%	106.34%	105.66%

The Bank’s permanent capital, total surplus, and core surplus ratios decreased at March 31, 2010 as compared to December 31, 2009. These ratios are calculated using three month average daily balances for both capital and assets. Patronage payments approved by the Bank’s Board of Directors totaling \$183.1 million were accrued on December 31, 2009, which reduced retained earnings as of that date and lowered average capital in the first quarter 2010 calculation. The impairment in AOCI, as discussed above, does not affect the reported capital ratios because the effect of AOCI is excluded entirely from the risk-based capital ratios.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2010 was \$116.6 million, compared to \$52.5 million at March 31, 2009, an increase of \$64.1 million, or 122.04 percent. The overall increase for the three month period is discussed below.

Net Interest Income

Net interest income for the three months ended March 31, 2010 was \$140.4 million compared to \$107.5 million for the same period of 2009, an increase of \$32.9 million or 30.50 percent. The net interest margin was 1.94 percent in the current year three month period, an improvement of 45 basis points over the same period of 2009. Spreads improved for several reasons, but primarily as called debt was replaced by new debt issued at a lower rate of interest, decreasing funding costs. Loan pricing compared to the underlying cost of funds also improved, reflecting increased credit risks and liquidity premiums in the lending markets. Change in net interest income due to the change in balance sheet volume was very minimal as a result of decreased loan demand previously discussed. Prospectively, as assets reprice in the lower interest rate environment, spreads and margins will narrow which can negatively affect net interest income.

The following table illustrates the changes in net interest income:

(dollars in thousands)	For the three months ended March 31, 2010 vs. March 31, 2009		
	Increase (decrease) due to changes in:		
	Volume	Rate	Total
Interest Income:			
Loans	\$ (1,142)	\$ (20,127)	\$ (21,269)
Investments & Cash Equivalents	1,242	(4,071)	(2,829)
Total Interest Income	\$ 100	\$ (24,198)	\$ (24,098)
Interest Expense:			
Interest-Bearing Liabilities	\$ 3,716	\$ (60,621)	\$ (56,905)
Changes in Net Interest Income	\$ (3,616)	\$ 36,423	\$ 32,807

Provision for Loan Losses

The provision for loan losses was \$4.4 million for the three month period ended March 31, 2010, compared to \$16.7 million for the same period in 2009. Provision expense for the three month period ended March 31, 2010 was primarily specific reserve increases for two participation borrower relationships, one in other real estate (\$3.2 million) and one in the forestry (\$2.9 million) segment, offset in part by a provision reversal of \$3.8 million related to a loan classified in the ethanol segment.

As mentioned previously, declining transitional agricultural real estate values were, in part, the reason for some of the provision expense recognized by the Bank.

See Note 3, *Allowance for Loan Losses and Impaired Loans*, in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	For the three months ended March 31,		
	2010	2009	Increase/ (Decrease)
<i>(dollars in thousands)</i>			
Loan fees	\$ 3,062	\$ 2,250	\$ 812
Gains (losses) from other property owned, net	469	(1)	470
Gains (losses) on investments, net	1,568	—	1,568
Net impairment losses on investments	(6,758)	(5,453)	(1,305)
Gains (losses) on derivatives	—	571	(571)
Gains (losses) on sale of rural home loans, net	(112)	—	(112)
Patronage refunds from other Farm Credit Institutions	308	758	(450)
Insurance premium refund	10,440	—	10,440
Other noninterest income	709	1,568	(859)
Total noninterest income	\$ 9,686	\$ (307)	\$ 9,993

Noninterest income, net of certain gains and losses as detailed in the table above for the three months ended March 31, 2010, was \$9.7 million, which reflected an increase of \$10.0 million compared to the same period in 2009. The increase of \$10.0 million was due primarily to the Bank's recording \$10.4 million of insurance premium refunds during the first quarter of 2010 from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. Also, adding to the increase in noninterest income were gains of \$1.6 million on the sales of four investments during the first quarter of 2010. These sales were the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio. Offsetting the increases to noninterest income was an increase of \$1.3 million in the recognition of credit related other-than-temporary impairment on several of the Bank's investment securities during the first quarter of 2010 as compared to the first quarter of 2009. See discussion of 2010 credit related other-than-temporary impairment above. Also, other noninterest income decreased \$859 thousand primarily due to a captive insurance allocated loss based on claims experience.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	For the three months ended March 31,		
	2010	2009	Increase/ (Decrease)
<i>(dollars in thousands)</i>			
Salaries and employee benefits	\$ 9,845	\$ 9,115	\$ 730
Occupancy and equipment	3,540	3,212	328
Insurance Fund premiums	2,706	4,992	(2,286)
Other operating expenses	5,119	5,217	(98)
Called debt expense	5,785	13,801	(8,016)
Correspondent lending servicing expense	1,945	1,618	327
Other noninterest expense	70	70	—
Total noninterest expense	\$ 29,010	\$ 38,025	\$ (9,015)

Noninterest expense for the three months ended March 31, 2010 was \$29.0 million, which reflected a decrease of \$9.0 million compared to the corresponding period in 2009. This decrease of \$9.0 million was primarily due to a decrease in insurance fund premiums and called debt expense offset by an increase in salaries and employee benefits.

Insurance Fund premiums decreased \$2.3 million (45.79 percent) for the three month period due primarily to a change in the premium rate charged. Effective January 1, 2010, the annual premium rate was reduced to 10 basis points compared to the 20 basis points charged in 2009.

Concession or debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized concession is expensed. Called debt expense decreased \$8.0 million (58.08 percent) for the three month period. Call options were exercised on bonds totaling \$4.5 billion during the first quarter of 2010 compared to \$7.6 billion during the first quarter of 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.

Salaries and employee benefits increased \$730 thousand (8.01 percent) due primarily to normal salary administration and increased employee benefit costs.

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

Key results of operations comparisons:

	Annualized for the three months ended March 31, 2010	For the year ended December 31, 2009	Annualized for the three months ended March 31, 2009
Return on average assets	1.55%	1.03%	0.72%
Return on average shareholders' equity	28.81%	20.90%	16.65%
Net interest income as a percentage of average earning assets	1.94%	1.66%	1.50%
Net (charge-offs) recoveries to average loans	(0.19)%	(0.28)%	(0.68)%

REGULATORY MATTERS

During 2010, the FCA has entered into written supervisory agreements with two District Associations whose combined assets totaled less than \$900.0 million at March 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. The FCA has taken no other enforcement actions against the Bank or other District Associations during 2010.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Stephen Gilbert, Controller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank's website, www.agfirst.com. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2010 <i>(unaudited)</i>	December 31, 2009 <i>(audited)</i>
Assets		
Cash and cash equivalents	\$ 909,399	\$ 938,884
Investment securities:		
Available for sale (amortized cost of \$6,991,363 and \$6,959,113 respectively)	6,911,187	6,838,025
Held to maturity (fair value of \$1,354,746 and \$1,426,740 respectively)	1,304,693	1,388,184
Total investment securities	8,215,880	8,226,209
Loans	20,648,639	21,327,319
Less: allowance for loan losses	26,989	32,292
Net loans	20,621,650	21,295,027
Accrued interest receivable	93,003	94,756
Investments in other Farm Credit System institutions	64,767	76,635
Premises and equipment, net	13,938	14,489
Other property owned	19,691	25,909
Due from associations	8,934	37,345
Other assets	164,455	158,290
Total assets	\$ 30,111,717	\$ 30,867,544
Liabilities		
Bonds and notes	\$ 28,011,222	\$ 28,694,013
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividends payable	82,302	83,038
Patronage distribution payable	3,273	182,724
Other liabilities	56,945	102,439
Total liabilities	28,378,742	29,287,214
Commitments and contingencies (Note 6)		
Shareholders' Equity		
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	433,856	438,707
Retained earnings		
Allocated	955	965
Unallocated	980,362	863,862
Accumulated other comprehensive income (loss)	(82,198)	(123,204)
Total shareholders' equity	1,732,975	1,580,330
Total liabilities and equity	\$ 30,111,717	\$ 30,867,544

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

Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2010	2009
Interest Income		
Investment securities and other	\$ 48,580	\$ 51,409
Loans	195,190	216,459
Total interest income	243,770	267,868
Interest Expense	103,416	160,321
Net interest income	140,354	107,547
Provision for (reversal of) loan losses	4,430	16,701
Net interest income after provision for (reversal of) loan losses	135,924	90,846
Noninterest Income		
Loan fees	3,062	2,250
Gains (losses) from other property owned, net	469	(1)
Gains (losses) on investments, net	1,568	—
Total other-than-temporary impairment losses on investments (Note 2)	(1,930)	(18,634)
Portion of loss recognized in other comprehensive income (Note 2)	(4,828)	13,181
Net other-than-temporary impairment losses on investments included in earnings	(6,758)	(5,453)
Gains (losses) on derivatives, net	—	571
Gain (loss) on sale of rural home loans, net	(112)	—
Patronage refunds from other Farm Credit institutions	308	758
Insurance premium refund	10,440	—
Other noninterest income	709	1,568
Total noninterest income	9,686	(307)
Noninterest Expenses		
Salaries and employee benefits	9,845	9,115
Occupancy and equipment	3,540	3,212
Insurance Fund premiums	2,706	4,992
Other operating expenses	5,119	5,217
Called debt expense	5,785	13,801
Correspondent lending servicing expense	1,945	1,618
Other noninterest expense	70	70
Total noninterest expenses	29,010	38,025
Net income	\$ 116,600	\$ 52,514

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

Statements of Changes in Shareholders' Equity

(unaudited)

<i>(dollars in thousands)</i>	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2008	\$ 400,000	\$ 434,929	\$805	\$ 762,550	\$ (357,192)	\$ 1,241,092
Cumulative-effect adjustment for investment impairment accounting change (Note 2)				3,474	(3,474)	—
Comprehensive income						
Net income				52,514		52,514
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 2)					(13,181)	
Temporarily impaired (Note 2)					73,366	
Total unrealized gains (losses) on investments available for sale						60,185
Employee benefit plans adjustments					35	35
Total comprehensive loss						112,734
Capital stock/participation certificates issued/(retired), net		3,743				3,743
Patronage distribution adjustment				4		4
Balance at March 31, 2009	\$ 400,000	\$ 438,672	\$ 805	\$ 818,542	\$ (300,446)	\$ 1,357,573
Balance at December 31, 2009	\$ 400,000	\$ 438,707	\$ 965	\$ 863,862	\$ (123,204)	\$ 1,580,330
Comprehensive income (loss)						
Net income				116,600		116,600
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 2)					4,526	
Temporarily impaired (Note 2)					36,385	
Total unrealized gains (losses) on investments available for sale						40,911
Employee benefit plans adjustments					95	95
Total comprehensive income						157,606
Capital stock/participation certificates issued/(retired), net		(4,851)				(4,851)
Cash patronage				(100)		(100)
Patronage distribution adjustment			(10)	—		(10)
Balance at March 31, 2010	\$ 400,000	\$ 433,856	\$ 955	\$ 980,362	\$ (82,198)	\$ 1,732,975

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

Statements of Cash Flows

(unaudited)

For the three months
ended March 31,

(dollars in thousands)

	2010	2009
Cash flows from operating activities:		
Net income	\$ 116,600	\$ 52,514
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	2,030	2,069
Premium amortization/discount accretion on investment securities	8,941	1,941
Premium amortization/discount accretion on bonds and notes	(4,003)	8,142
Provision for (reversal of) loan losses	4,430	16,701
(Gains) losses on other property owned, net	(469)	1
Net impairment losses on investments	6,758	5,453
(Gains) losses on derivatives, net	—	(571)
(Gains) losses on investments, net	(1,568)	—
(Gains) losses on sales of rural home loans, net	112	—
Net change in loans held for sale	6,278	14,949
(Increase) decrease in accrued interest receivable	1,753	6,216
(Increase) decrease in due from associations	28,411	27,372
(Increase) decrease in other assets	(8,049)	(19,347)
Increase (decrease) in accrued interest payable	(736)	(51,260)
Increase (decrease) in other liabilities	(51,928)	132,073
Total adjustments	(8,040)	143,739
Net cash provided by (used in) operating activities	108,560	196,253
Cash flows from investing activities:		
Investment securities purchased	(592,434)	(748,253)
Investment securities sold or matured	636,301	499,683
Net (increase) decrease in loans	662,557	301,328
(Increase) decrease in investments in other Farm Credit System institutions	11,868	469
Purchase of premises and equipment, net	(1,479)	(1,247)
Proceeds from sale of other property owned	6,687	—
Net cash provided by (used in) investing activities	723,500	51,980
Cash flows from financing activities:		
Bonds and notes issued	14,810,340	29,425,995
Bonds and notes retired	(15,487,473)	(29,595,092)
Capital stock and participation certificates issued/retired, net	(4,851)	3,743
Cash distribution to shareholders	(179,561)	(157,013)
Net cash provided by (used in) financing activities	(861,545)	(322,367)
Net increase (decrease) in cash and cash equivalents	(29,485)	(74,134)
Cash and cash equivalents, beginning of period	938,884	277,003
Cash and cash equivalents, end of period	\$ 909,399	\$ 202,869
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other property owned	\$ —	\$ 179
Change in unrealized gains (losses) on investments and derivative instruments, net	40,911	60,185
Employee benefit plans adjustments	95	35
Cumulative-effect adjustment for investment impairment accounting change (Note 2)	—	(3,474)
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	\$ (1,655)	\$ (13,055)
Decrease (increase) in other assets	1,884	12,998
Increase (decrease) in other liabilities	(229)	(571)
Supplemental information:		
Interest paid	\$ 108,155	\$ 203,439

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

Notes to the Financial Statements

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

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

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

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

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

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

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

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

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

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application was prohibited. This guidance must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, 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 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 as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application was prohibited. 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.

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

NOTE 2 — INVESTMENT SECURITIES

Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments as of March 31, 2010 and December 31, 2009 follows:

	March 31, 2010				
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA					
MBS/CMOs	\$ 4,160,306	\$ 49,581	\$ (6,506)	\$ 4,203,381	2.10%
U.S. Govt. Agency MBS	2,337,226	24,392	(37,377)	2,324,241	1.39
Non-Agency CMOs	436,875	—	(93,269)	343,606	0.65
Asset-Backed Securities	56,956	—	(16,997)	39,959	0.53
Total	\$ 6,991,363	\$ 73,973	\$ (154,149)	\$ 6,911,187	1.76%

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

Held-to-maturity

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

	March 31, 2010				
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	\$ 1,169,658	\$ 53,485	\$ (278)	\$ 1,222,865	5.21%
Mission Related Investments	135,035	1,894	(5,048)	131,881	6.12
Total	\$ 1,304,693	\$ 55,379	\$ (5,326)	\$ 1,354,746	5.30%

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

A summary of the expected maturity, estimated fair value and amortized cost of investment securities at March 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	
<i>(dollars in thousands)</i>	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	\$ —	— %	\$ —	— %	\$ 1,563	0.65 %	\$ 4,201,818	2.10 %	\$ 4,203,381	2.10 %
U.S. Govt. Agency MBS	—	—	590	0.98	116,300	1.80	2,207,351	1.37	2,324,241	1.39
Non-Agency CMOs	—	—	—	—	—	—	343,606	0.65	343,606	0.65
Asset-Backed Securities	—	—	—	—	—	—	39,959	0.53	39,959	0.53
Total fair value	\$ —	— %	\$ 590	0.98 %	\$ 117,863	1.78 %	\$ 6,792,734	1.76 %	\$ 6,911,187	1.76 %
Total amortized cost	\$ —		\$ 590		\$ 116,016		\$ 6,874,757		\$ 6,991,363	

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	
<i>(dollars in thousands)</i>	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	\$ —	— %	\$ —	— %	\$ 2,672	5.01 %	\$ 1,166,986	5.21 %	\$ 1,169,658	5.21 %
Mission Related Investments	4,872	6.20	7,622	3.82	39,705	6.71	82,836	6.04	135,035	6.12
Total amortized cost	\$ 4,872	6.20 %	\$ 7,622	3.82 %	\$ 42,377	6.60 %	\$ 1,249,822	5.27 %	\$ 1,304,693	5.30 %
Total fair value	\$ 4,983		\$ 8,047		\$ 42,334		\$ 1,299,382		\$ 1,354,746	

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

During the first quarter of 2010, proceeds from sales of investment securities were \$57.5 million and realized gains were \$1.6 million. There were no sales of investment securities during the first quarter of 2009.

AgFirst's investments include primarily mortgage-backed securities (MBSs) and asset backed securities (ABSs). These securities are held for maintaining a liquidity reserve, managing short-term surplus funds, and managing 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 or credit enhancement achieved through over collateralization or other means and the priority of payments of senior classes over junior classes. All ABSs have credit enhancement features including senior/subordinate structure and/or are backed by a bond insurer.

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

MBSs are collateralized by U.S. government or U.S. agency guaranteed residential mortgages and all were rated AAA/Aaa at March 31, 2010. Non-agency CMO securities not rated in the top category by at least one of the NRSROs at March 31, 2010 had a fair value of \$202.8 million. ABSs not rated in the top category by at least one of the NRSROs at March 31, 2010 had a fair value of \$28.7 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 except those investments that have recently become ineligible, which the FCA is still in the process of reviewing.

The fair value of all investments at March 31, 2010 split rated AAA/Aaa or lower by the NRSROs totaled \$368.8 million (amortized cost of \$477.4 million). This represents approximately 4.46 percent (and 5.75 percent) of total fair value (and amortized cost) of the Bank's total investment portfolio at March 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. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following table shows the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at March 31, 2010 and December 31, 2009:

	March 31, 2010					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. GNMA MBS/CMOs	\$ 50,963	\$ 126	\$ 853,222	\$ 6,379	\$ 904,185	\$ 6,505
U.S. Govt. Agency MBS	29,750	1,363	1,195,889	36,292	1,225,639	37,655
Non-Agency CMOs	—	—	343,606	93,269	343,606	93,269
Asset-Backed Securities	—	—	39,959	16,998	39,959	16,998
Mission Related Investments	17,639	1,783	74,654	3,265	92,293	5,048
Total	\$ 98,352	\$ 3,272	\$ 2,507,330	\$ 156,203	\$ 2,605,682	\$ 159,475

	December 31, 2009					
	Less than		Greater than		Total	
	12 Months		12 Months			
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. GNMA MBS/CMOs	\$ 186,492	\$ 1,242	\$ 1,269,486	\$ 11,716	\$ 1,455,978	\$ 12,958
U.S. Govt. Agency MBS	213,231	2,014	1,369,665	42,531	1,582,896	44,545
Non-Agency CMOs	12,042	2,395	347,984	98,444	360,026	100,839
Asset-Backed Securities	—	—	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	\$ 3,106,309	\$ 178,550	\$ 3,545,836	\$ 188,346

On March 31, 2010, the Bank held certain investments having continuous unrealized loss positions greater than 12 months with a fair value totaling \$2.507 billion and an unrealized loss position totaling \$156.2 million. FASB guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary including: (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 any 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 \$1.9 million in connection with ABS securities and non-agency CMO securities in its portfolio, which is included in Impairment Losses on Investments in the Statements of Income.

Since the Bank does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the other-than temporary impairment of \$1.9 million is separated into: 1) the estimated amount relating to credit loss (\$6.8 million reflected in Net Income in the Statements of Income), and 2) the amount relating to all other factors (\$4.8 million reflected in other comprehensive income in the Statement of Changes in Shareholders' Equity).

In determining the amount of credit loss, the Bank uses the expected present value technique as its best estimate of the present value of cash flows expected to be collected from the debt security. This technique requires key 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 and the forecasted

cumulative default rates used at March 31, 2010 ranged from 1% to 49% for non-agency CMO securities and from 12% to 70% for ABS securities. Prepayment rate assumptions are based on forecasted prepayments and resulted in prepayment rates that ranged from 9% to 16% for non-agency CMO securities and from 11% to 23% for ABS securities at March 31, 2010. At March 31, 2010, the loss severity rates estimated from assumptions ranged from 4% to 58% for non-agency CMO securities and from 56% to 100% 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 three months ended March 31, 2010, net unrealized gains of \$36.4 million were recognized in other comprehensive income for temporarily impaired available-for-sale investments.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings as of March 31, 2010 and 2009.

<i>(dollars in thousands)</i>	For the three months ended March 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	221
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	6,537
Ending balance at March 31, 2010	\$ 39,917

<i>(dollars in thousands)</i>	For the three months ended March 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	5,453
Ending balance at March 31, 2009	\$ 12,444

NOTE 3 — ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2010	2009
Balance at beginning of period	\$ 32,292	\$ 44,565
Provision for (reversal of) loan losses	4,430	16,701
Charge-offs	(9,893)	(35,001)
Recoveries	160	—
Balance at end of period	\$ 26,989	\$ 26,265

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

The following table presents information concerning impaired loans as of March 31,

<i>(dollars in thousands)</i>	2010	2009
Impaired loans with related allowance	\$ 69,365	\$ 14,250
Impaired loans with no related allowance	157,735	205,175
Total impaired loans	<u>\$ 227,100</u>	<u>\$ 219,425</u>
Allowance on impaired loans	<u>\$ 15,394</u>	<u>\$ 14,156</u>

The following table summarizes impaired loan information for the three months ended March 31,

<i>(dollars in thousands)</i>	2010	2009
Average impaired loans	\$ 219,978	\$ 194,782
Interest income recognized on impaired loans	582	212

NOTE 4 — FAIR VALUE MEASUREMENT

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 the Bank's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. 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 March 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), volatilities about 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 March 31, 2010 include derivative contracts and investment securities 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 March 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. 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 March 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 home equity lines of credit, small business loans, equipment loans, or student loans. 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 March 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 March 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 March 31, 2010 and December 31, 2009 for each of the fair value hierarchy levels:

	March 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	\$ —	\$ 4,203,381	\$ —	\$ 4,203,381
U.S. Govt. Agency MBS	—	2,324,241	—	2,324,241
Non-Agency CMOs	—	—	343,606	343,606
Asset-Backed Securities	—	—	39,959	39,959
Commercial paper, Bankers' Acceptances, CD's & Others	—	52,808	—	52,808
Federal funds sold, securities purchased under resale agreements, and other	—	14,394	—	14,394
Interest rate swaps and other financial instruments	—	68,158	—	68,158
Assets held in trust funds	2,903	—	—	2,903
Total Assets	\$ 2,903	\$ 6,662,982	\$ 383,565	\$ 7,049,450
Liabilities:				
Interest rate swaps and other financial instruments	\$ —	\$ —	\$ —	\$ —
Collateral liabilities	—	17,085	—	17,085
Standby letters of credit	—	—	2,190	2,190
Total Liabilities	\$ —	\$ 17,085	\$ 2,190	\$ 19,275

	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
Commercial paper, Bankers' Acceptances, CD's & Others	—	86,690	—	86,690
Federal funds sold, securities purchased under resale agreements, and other	—	146,201	—	146,201
Interest rate swaps and other financial instruments	—	70,041	—	70,041
Assets held in trust funds	2,825	—	—	2,825
Total Assets	\$ 2,825	\$ 6,733,465	\$ 407,492	\$ 7,143,782
Liabilities:				
Interest rate swaps and other financial instruments	\$ —	\$ 229	\$ —	\$ 229
Collateral liabilities	—	14,065	—	14,065
Standby letters of credit	—	—	2,461	2,461
Total Liabilities	\$ —	\$ 14,294	\$ 2,461	\$ 16,755

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

	Asset-Backed Investment Securities	Non- Agency CMOs	Standby Letters Of Credit
<i>(dollars in thousands)</i>			
Balance at January 1, 2010	\$ 47,465	\$ 360,027	\$ 2,461
Total gains or (losses) realized/unrealized:			
Included in earnings	(4,801)	(1,957)	—
Included in other comprehensive loss	2,697	7,570	—
Purchases, sales, issuances and settlements, net	(5,402)	(22,034)	(271)
Transfers in and/or out of level 3	—	—	—
Balance at March 31, 2010	\$ 39,959	\$ 343,606	\$ 2,190

	Asset-Backed Investment Securities	Non- Agency CMOs	Standby Letters Of Credit
<i>(dollars in thousands)</i>			
Balance at January 1, 2009	\$ 79,961	\$ —	\$ 2,301
Total gains or (losses) realized/unrealized:			
Included in earnings	(4,009)	—	—
Included in other comprehensive loss	5,651	—	—
Purchases, sales, issuances and settlements, net	(13,304)	—	(129)
Transfers in and/or out of level 3	—	397,320	—
Balance at March 31, 2009	\$ 68,299	\$ 397,320	\$ 2,172

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

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

March 31, 2010					
(dollars in thousands)	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ —	\$ —	\$ 17,669	\$ 17,669	\$ (3,421)
Other property owned	—	—	—	—	22

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

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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.

(dollars in thousands)	March 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Loans, net of allowance	\$ 20,621,650	\$ 20,815,627	\$ 21,295,027	\$ 21,509,619
Derivative assets	68,158	68,158	70,041	70,041
Cash and cash equivalents	909,399	909,399	938,884	938,884
Investment securities	8,215,880	8,265,933	8,226,209	8,264,765
Assets held in trust funds	2,903	2,903	2,825	2,825
Financial liabilities:				
Systemwide Debt Securities	\$ 28,011,222	\$ 28,086,498	\$ 28,694,013	\$ 28,711,990
Derivative liabilities	—	—	229	229

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

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

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

- B. Cash and Cash Equivalents:** The carrying value is primarily utilized as a reasonable estimate of fair value.
- C. Investment Securities:** Fair value is primarily based upon prices obtained from a third party valuation service. See additional information in Note 4.
- D. Systemwide Debt Securities:** Bonds and notes are not regularly traded; thus, quoted market prices are not available. Fair value of these instruments is estimated by discounting expected future cash flows based on the quoted market price of similar maturity Treasury notes, assuming a constant estimated spread relationship between Systemwide bonds and notes and comparable Treasury notes.
- E. Derivative Instruments:** The fair value of derivatives is the estimated amount to be received or paid to replace the instruments at the reporting date, considering current and projected interest rates. Where actively quoted market prices do not exist, estimated fair values are determined through internal market valuation models. See additional information in Note 8.
- F. Assets Held In Trust Funds:** See Note 4 for discussion of estimation of fair value for these assets.

NOTE 6 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each Farm Credit System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the banks are jointly and severally liable for the bonds and notes of the other Farm Credit System banks. The bonds and notes of the System totaled \$174.605 billion at March 31, 2010.

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

NOTE 7 — EMPLOYEE BENEFIT PLANS

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

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2010	2009
Pension	\$ 2,264	\$ 2,121
401k	224	216
Other postretirement benefits	247	221
Total	<u>\$ 2,735</u>	<u>\$ 2,558</u>

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

<i>(dollars in thousands)</i>	Actual YTD Through 3/31/10	Projected Contributions for Remainder Of 2010	Projected Total Contributions 2010
Pensions	\$ 63	\$ 7,209	\$ 7,272
Other postretirement benefits	243	495	738
Total	\$ 306	\$ 7,704	\$ 8,010

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

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

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

The Bank 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. The Bank's goal is to manage interest rate sensitivity by modifying the repricing characteristics of certain balance sheet assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. 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 enters 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. 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 March 31, 2010 is summarized in the following table:

(dollars in millions)	Receive-Fixed Swaps
Balance at beginning of period	\$ 1,373
Additions	50
Maturities/amortization	—
Terminations	—
Balance at end of period	<u>\$ 1,423</u>

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

To minimize the risk of credit losses, the Bank deals with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of and levels of exposure to individual counterparties. The estimated gross credit risk exposure at March 31, 2010 of \$68.2 million was with eight counterparties and represented approximately 4.79 percent of the total notional amount of interest rate swaps. The Bank held \$17.1 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The Bank does not anticipate nonperformance by any of these counterparties. The estimated gross credit risk exposure at December 31, 2009 of \$70.0 million was with eight counterparties and represented approximately 5.08 percent of the total notional amount of interest rate swaps. The Bank held \$14.1 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties. At March 31, 2010, the Bank had not posted collateral with respect to 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 that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the gain on interest rate swaps recognized in interest expense for the three months ended March 31, 2010 was \$1.9 million, while the amount of the loss on the Systemwide Debt Securities was (\$1.9) million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

<i>(dollars in thousands)</i>	Balance Sheet Classification – Assets	3/31/10 Fair Value	Balance Sheet Classification – Liabilities	3/31/10 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	\$ 68,158	Other Liabilities	\$ –
Total		\$ 68,158		\$ –

The Bank had no gain or loss on derivatives recognized in the Income Statement for the three months ended March 31, 2010.

NOTE 9 – SUBSEQUENT EVENTS

The Bank has evaluated subsequent events and has determined there are none requiring disclosure through May 7, 2010, which is the date the financial statements were issued.