



**AGFIRST FARM CREDIT BANK
& DISTRICT ASSOCIATIONS**

Quarterly Report
Second Quarter 2011

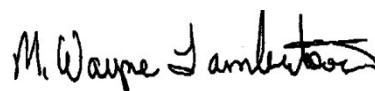
SECOND QUARTER 2011

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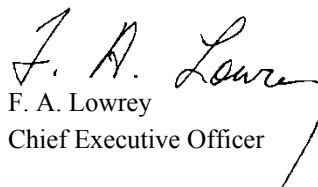
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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2011 quarterly report of AgFirst Farm Credit Bank and District Associations, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



M. Wayne Lambertson
Chairman of the Board



F. A. Lowrey
Chief Executive Officer



Charl L. Butler
Chief Financial Officer

August 9, 2011

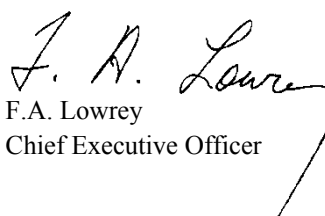
Report on Internal Control Over Financial Reporting


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

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

The Bank and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2011. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank and each District Association concluded that as of June 30, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank and each District Association determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2011.


F.A. Lowrey
Chief Executive Officer


Charl L. Butler
Chief Financial Officer

August 9, 2011

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, as of and for the three and six month periods ended June 30, 2011. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Combined Financial Statements, and the 2010 Annual Report of AgFirst Farm Credit Bank and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

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

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

FORWARD-LOOKING INFORMATION

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

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

FINANCIAL CONDITION

Loan Portfolio

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

Loan Types <i>(dollars in thousands)</i>	June 30, 2011		December 31, 2010		June 30, 2010	
Real Estate Mortgage	\$ 9,879,533	43 %	\$ 9,986,760	43 %	\$ 9,862,773	43 %
Production and Intermediate-Term	8,111,717	36	8,105,060	35	8,200,209	36
Rural Residential Real Estate	2,380,881	10	2,258,480	10	2,123,069	9
Processing and Marketing	1,240,269	5	1,355,811	6	1,360,341	6
Loans to Cooperatives	336,066	2	304,161	1	321,174	1
Farm-Related Business	322,522	2	342,984	2	340,487	1
Energy	307,341	1	342,614	2	343,678	2
Communication	203,356	1	200,578	1	183,887	1
Water and Waste Disposal	28,022	–	28,024	–	28,024	1
Lease Receivables	8,650	–	10,697	–	13,555	–
Loans to OFIs	16,000	–	5,000	–	16,000	–
Other (including Mission Related)	81,215	–	92,724	–	97,293	–
Total	\$ 22,915,572	100 %	\$ 23,032,893	100 %	\$ 22,890,490	100 %

Total loans outstanding were \$22.916 billion at June 30, 2011, a decrease of \$117.3 million, or 0.51 percent, compared to total loans outstanding at December 31, 2010. The resolution of adversely classified loans has impacted loan volume as loans are charged down to their fair value when transitioned to nonaccrual status, liquidated through voluntary or foreclosure sales, or moved to other property owned. Reduced loan demand from the continued relative weakness in the general economy is also a reason for the decline in loan volume.

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

Credit Quality

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

Credit Quality as of:			
Classification	June 30, 2011	December 31, 2010	June 30, 2010
Acceptable	87.51%	86.87%	86.73%
OAEM *	6.04%	6.65%	6.56%
Substandard	6.27%	6.33%	6.53%
Doubtful/loss	0.18%	0.15%	0.18%

* *Other Assets Especially Mentioned*

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

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

The livestock industries returned to profitability over the last year after a period of stress. Profitability was primarily achieved through lower production costs and reduction of oversupply which led to higher prices. Higher grain and energy costs in the livestock industry in 2011 have been offset by higher meat prices for both beef and swine producers. Many poultry integrators are experiencing losses in 2011 due to oversupply, which resulted in lower prices, as well as higher input prices. Margins also remain tight for dairy processors and ethanol producers due to increased input costs, especially high corn prices. The future volatility of grain prices remains a primary concern to the meat and ethanol sectors.

Other major segments of the District loan portfolio continue to perform well, including sugar, citrus, cotton, and row crops. High commodity prices for grains have been very beneficial to row crop farmers. However, adverse weather conditions may impact row crop yields in certain locations of the District. Production farm land values and sales have generally held up better than residential and investment real estate.

Although credit quality is generally stabilizing, it will take time to fully resolve some problem assets due to their dependency on a recovery in the housing market and real estate values.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at June 30, 2011, were \$844.1 million compared to \$795.1 million at December 31, 2010. Nonaccrual loans increased \$49.0 million during the six month period ended June 30, 2011 primarily due to \$313.9 million of loan balances transferred to nonaccrual status and advances of \$34.6 million. Offsetting these increases were repayments of \$179.7 million, \$66.1 million of charge-offs of uncollectible balances, transfers to other property owned of \$46.2 million, and reinstatements to accrual status of \$16.5 million. The ten largest nonaccrual borrower relationships accounted for 23.94 percent of the total nonaccrual balance. At June 30, 2011, total nonaccrual loans were primarily in the forestry (29.82 percent of the total), other real estate (11.36 percent), nursery/greenhouse (8.61 percent), processing (8.20 percent), and cattle (7.81 percent) segments. Some of these nonaccrual loans are secured by real estate, which has been negatively impacted by the current economic environment as discussed previously. Nonaccrual loans were 3.68 percent of total loans outstanding at June 30, 2011.

Troubled Debt Restructurings

A troubled debt restructuring occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the lender would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms or rates or a compromise of amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by both the lender and the borrower. Troubled debt restructurings totaled \$200.0 million at June 30, 2011, compared to \$151.9 million at December 31, 2010. At June 30, 2011, troubled debt restructurings were comprised of \$52.8 million of accruing restructured loans and \$147.3 million of nonaccruing restructured loans. Restructured loans were primarily in the forestry (30.14 percent of the total), processing (18.62 percent), and swine (16.93 percent) segments.

Other Property Owned

Other property owned (OPO) consists of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased \$8.9 million during the first

six months of 2011 and totaled \$137.6 million at June 30, 2011. For the six months ended June 30, 2011, transfers to OPO were \$47.2 million. Offsetting this increase were disposals of \$38.8 million and write-downs of OPO of \$17.2 million. Write-downs for the six months ended June 30, 2011 were comprised of several properties, and the largest property write-down of \$4.2 million was for a recreational land holding. The largest OPO holding at June 30, 2011, which consisted of a pastures and citrus groves land holding, was \$17.9 million (13.02 percent of the total).

Allowance for Loan Losses

The District maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was \$184.5 million at June 30, 2011, as compared with \$182.3 million at December 31, 2010. The increase during the six months ended June 30, 2011, of \$2.1 million was primarily due to increases from provision expense of \$88.9 million and recoveries of \$3.5 million, offset by decreases for loan charge-offs of \$74.1 million as their uncollectability became more measurable and apparent during the quarter, and \$16.1 million for merger accounting adjustments as the allowance of the two merged Associations was transferred into their related loan balances on the merger effective date of January 1, 2011. See Note 3, *Loans and Allowance for Loan Losses*, and Note 11, *District Merger Activity*, in the Notes to the Combined Financial Statements for further information. Provision expense was related primarily to the ethanol (29.03 percent of the total), forestry (16.42 percent), cattle (13.87 percent), and processing (11.01 percent) segments. Charge-offs during the six month period were related primarily to borrowers in the ethanol (41.24 percent), forestry (15.12 percent), and cattle (11.12 percent) segments. The allowance at June 30, 2011 included specific reserves of \$76.2 million (41.33 percent of the total) and \$108.2 million (58.67 percent) of general reserves. The total allowance at June 30, 2011 was comprised primarily of reserves for the forestry (22.83 percent of the total), cattle (8.61 percent), other real estate (8.14 percent), nursery/greenhouse (8.05 percent), processing (7.43 percent), fruits/vegetables (5.98 percent), and poultry (5.19 percent) segments. Declining real estate values impacted charge-offs and reserves in several of these loan segments. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Combined Financial Statements for further information. See *Provision for Loan Losses* section for details regarding increases to the allowance from provision expense.

Liquidity and Funding Sources

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

At June 30, 2011, AgFirst had \$27.835 billion in total debt outstanding compared to \$28.526 billion at December 31, 2010. In addition, other interest-bearing liabilities for AgFirst included \$225.0 million in Mandatorily Redeemable Preferred Stock in both periods. Total interest-bearing liabilities decreased primarily due to the decrease in loan volume as discussed in this report which reduced funding requirements.

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

Cash and cash equivalents, which decreased \$237.2 million from December 31, 2010 to a total of \$1.226 billion at June 30, 2011, consist primarily of cash on deposit and money market securities that are short term in nature (from overnight maturities to maturities that range up to 90 days). Money market securities must carry one of the two highest short-term ratings as designated by a Nationally Recognized Statistical Rating Organization (NRSRO). The decrease in cash and cash equivalents was due primarily to the lesser amount of cash needed to maintain 15 days of liquidity coverage on maturing debt at June 30, 2011 compared to December 31, 2010.

Investment securities totaled \$8.192 billion, or 24.81 percent of total assets at June 30, 2011, compared to \$8.260 billion, or 24.62 percent, as of December 31, 2010. Investment securities decreased \$67.3 million (0.81 percent), compared to December 31, 2010, as management maintained the investment securities portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

Investment securities classified as being held-to-maturity totaled \$1.077 billion at June 30, 2011. These held-to-maturity investments were primarily Rural Housing Mortgage-Backed Securities purchased under a Mission Related Investment pilot program approved by the FCA in 2005.

Investment securities classified as being available-for-sale totaled \$7.115 billion at June 30, 2011. Available-for-sale investments at June 30, 2011 included \$5.136 billion in Government National Mortgage Association (GNMA) securities backed by the full faith and credit of the U.S. Government, \$1.648 billion in Agency mortgage backed securities, \$259.3 million in non-agency collateralized mortgage obligations (CMOs), \$29.5 million in asset-backed securities, \$41.8 million in Mission Related Investments, and \$537 thousand in commercial mortgage backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of June 30, 2011, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require a liquidity policy that establishes a minimum “coverage” level of 90 days. “Coverage” is defined as the number of days that maturing debt could be funded through the sale of eligible available-for-sale investments and cash and cash equivalents maintained by the Bank. At both June 30, 2011 and December 31, 2010, AgFirst’s coverage was 208 days. At June 30, 2011, the Bank’s cash and cash equivalents position provided 20 days coverage (Bank policy minimum is 15 days) and investment securities fully backed by the U.S. government provided an additional 186 days of coverage. Cash provided by the Bank’s operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation of 208 days.

The FCA considers an asset-backed or mortgage-backed investment security ineligible if it falls below the top category (AAA/Aaa) credit rating by the NRSROs. The FCA requires System institutions to divest of such an investment unless the FCA grants specific approval to continue to hold an ineligible security. For each of the investment securities in the District’s portfolio at June 30, 2011 rated below AAA/Aaa (total fair value of \$211.1 million and amortized cost of \$258.7 million), the District has developed and submitted plans for approval by the FCA that provide that the District may continue to hold the securities. The FCA has approved, with conditions, the District’s plans for all but one investment that has recently become ineligible. The District is in the process of submitting the plan to obtain approval from the FCA to hold this one investment. Management is of the opinion that holding these securities will result in a higher return for the District than selling them in the current illiquid market. Based on the District’s analysis, no other-than-temporary credit related impairment was recognized in 2011 on this recently ineligible security.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain District ineligible securities are risk weighted between 50 percent and 200 percent instead of the standard 20 percent. These ineligible securities had a fair value of \$104.0 million and amortized cost of \$128.3 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 \$55.8 million and amortized cost of \$68.8 million at June 30, 2011. The fair value and amortized cost amount of ineligible non-agency reperformer CMO securities, covered by Federal Housing Administration insurance and therefore risk weighted at the standard 20 percent, were \$51.2 million and \$61.6 million, respectively, at June 30, 2011. See the *Capital Resources* section below for further discussion of the regulatory ratios. In addition, all ineligible investments, except non-agency reperformer CMOs which meet certain conditions, are excluded from liquidity coverage as defined above.

Net unrealized gains related to the available-for-sale securities were \$91.6 million at June 30, 2011, compared to total net unrealized gains of \$43.3 million at December 31, 2010. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Combined Financial Statements. The net unrealized gains stem from normal market factors, such as the current interest rate environment.

The District performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Additional analysis for each security not rated in the top category by the NRSROs is performed using a cash flow model with key assumptions and performance factors which may include credit default rate, prepayment rate, and loss severity. The objective is to quantify future possible loss of principal or interest due on each identified security. The credit enhancements specific to the individual security are considered as appropriate, and may include monoline credit insurance, subordination, over-collateralization, and excess interest spread. Asset-backed securities covered by insurers are analyzed with insurance and without, to quantify the extent of reliance on their guarantee. Based on the results of all analyses, the District recognized other-than-temporary credit related impairment of \$8.1 million on asset-backed securities and non-agency CMOs in its portfolio for the six months ended June 30, 2011,

which was included in Net Other-Than-Temporary Impairment Losses on Investments in the Combined Statements of Income. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis. Payment shortfalls, net of insurance recoveries, on asset-backed securities have totaled only \$14.6 million life to date (\$4.0 million in 2011), compared to total other-than-temporary credit related impairment charges life to date of \$39.5 million (\$3.6 million in 2011). Total other-than-temporary credit related impairment charges on non-agency CMOs have totaled \$14.0 million life to date (\$4.5 million in 2011). There have been no payment shortfalls on non-agency CMOs. See Note 2, *Investment Securities*, in the Notes to the Combined Financial Statements for further information.

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

U.S. Fiscal Situation and Credit Rating Impact on Funding

The Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System’s mission of providing credit to agriculture and rural America. However, recent U.S. Congressional negotiations to raise the government’s borrowing limit and to address long-term budget imbalances have further highlighted the risks to the System relating to the U.S. fiscal situation. These risks include the implied link between the credit rating of the System and the U.S. Government given the System’s status as a GSE.

Prior to August 2011, the NRSROs changed their outlook assigned to the debt securities of the U.S. Government to negative while maintaining the short and long-term ratings for these securities, which were the highest ratings as designated by the NRSROs. The NRSROs indicated that depending upon the actions of Congress and the Administration with respect to the government debt ceiling and budget, it was possible that the long-term sovereign credit rating of the U.S. could be downgraded. On August 5, 2011, one of the NRSROs, citing continuing concerns over the degree of uncertainty around the political policy process and the underlying debt burden of the U.S. Government, downgraded the long-term credit rating of U.S. Government (sovereign) debt one level to AA+ from the highest rating of AAA, while leaving the short-term credit rating unchanged. As a consequence of this downgrade action, on August 8, 2011, the same NRSRO downgraded the long-term credit rating of System debt due to the implied link between the credit rating of the System and the U.S. Government given the System’s status as a GSE. Other GSEs were also concurrently downgraded by this NRSRO. The short-term credit rating of the System was not changed. A reduction in the System’s credit rating may increase borrowing costs and may limit access to the capital markets, reducing the flexibility to issue debt across the full spectrum of the yield curve. Notwithstanding the recent credit rating downgrade and outlook changes, to date, the System has continued to have access to funding at competitive rates and terms necessary to support the lending and business operations of the System. The Bank anticipates continued access to funding through the issuance of Farm Credit System debt.

Capital Resources

Total District shareholders’ equity increased \$260.1 million (6.26 percent) from December 31, 2010 to June 30, 2011. This increase is primarily attributed to 2011 unallocated retained earnings from net income of \$264.1 million, increases of \$48.3 million in net unrealized gains during 2011 on investments available-for-sale, a component of AOCI, and employee benefit plan adjustments of \$14.5 million. Offsetting the increases were retained earnings retired of \$29.0 million, a dividend payment of \$13.7 million on perpetual preferred stock, and a reduction to equity due to merger accounting adjustments of \$23.5 million. The merger accounting adjustments represent the net amount to fair value assets and liabilities of the two merged Associations. See Note 11, *District Merger Activity*, in the Notes to the Combined Financial Statements for further information.

As of June 30, 2011, AgFirst and all of the District Associations exceeded the applicable minimum permanent capital, core surplus, total surplus, and net collateral ratio requirements established by FCA Regulations.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2011 was \$264.1 million, compared to \$302.1 million at June 30, 2010, a decrease of \$38.0 million, or 12.57 percent, primarily due to Farm Credit System Insurance Corporation (FCSIC) insurance premium refunds received in 2010.

Key results of operations comparisons

	Annualized for the six months ended June 30, 2011	For the year ended December 31, 2010	Annualized for the six months ended June 30, 2010
Return on average assets	1.62%	1.66%	1.83%
Return on average shareholders' equity	12.37%	13.67%	15.75%
Net interest income as a percentage of average earning assets	3.51%	3.31%	3.24%
Net (charge-offs) recoveries to average loans	(0.622)%	(0.658)%	(0.116)%

Net Interest Income

Net interest income for the three months ended June 30, 2011 was \$278.2 million compared to \$256.8 million for the same period of 2010, an increase of \$21.4 million or 8.33 percent. For the six months ended June 30, 2011, net interest income was \$548.5 million compared to \$512.5 million for the six months ended June 30, 2010, an increase of \$36.0 million, or 7.03 percent. The net interest margin was 3.54 percent and 3.51 percent in the current year three and six month periods, respectively, an improvement of 30 and 27 basis points over the same periods of 2010. Spreads improved for several reasons, but primarily resulted from called debt being replaced by new debt issued at lower interest rates, decreasing funding costs. Change in net interest income due to the change in balance sheet volume was minimal as a result of decreased loan demand previously discussed. Prospectively, as assets reprice in the lower interest rate environment, spreads and margins will narrow which can negatively affect net interest income.

The following table illustrates the changes in net interest income:

<i>(dollars in thousands)</i>	For the three months ended June 30, 2011 vs. June 30, 2010			For the six months ended June 30, 2011 vs. June 30, 2010		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	\$ 204	\$ (3,793)	\$ (3,589)	\$ (940)	\$ (10,617)	\$ (11,557)
Investments & Cash Equivalents	(1,889)	2,382	493	(4,127)	4,101	(26)
Total Interest Income	\$ (1,685)	\$ (1,411)	\$ (3,096)	\$ (5,067)	\$ (6,516)	\$ (11,583)
Interest Expense:						
Interest-Bearing Liabilities	\$ (2,932)	\$ (21,560)	\$ (24,492)	\$ (6,057)	\$ (41,559)	\$ (47,616)
Changes in Net Interest Income	\$ 1,247	\$ 20,149	\$ 21,396	\$ 990	\$ 35,043	\$ 36,033

Provision for Loan Losses

The District measures risks inherent in its portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. The provision for loan losses was \$55.2 million and \$88.9 for the three and six month periods ended June 30, 2011, compared to \$38.8 million and \$57.0 million for the same periods in 2010. Provision for loan loss expense for the three months ended June 30, 2011 consisted of \$50.7 million related to reserves for specific credits and \$4.5 million related to general reserves. The \$88.9 million in provision for loan loss expense for the six months ended June 30, 2011, consisted of \$82.0 million related to reserves for specific credits and \$6.9 million related to general reserves. Provision expense for the second quarter of 2011 primarily related to borrowers in the ethanol (26.09 percent of the total), forestry (20.81 percent), and processing (17.62 percent) segments. Provision expense for the six months ended June 30, 2011 primarily related to borrowers in the ethanol (29.03 percent of

the total), forestry (16.42 percent), cattle (13.87 percent), and processing (11.01 percent) segments. As mentioned previously, declining real estate values were, in part, the reason for some of the provision expense recognized by the District. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Combined 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 June 30,			For the six months ended June 30,		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
<i>(dollars in thousands)</i>						
Loan fees	\$ 10,437	\$ 10,799	\$ (362)	\$ 20,628	\$ 21,654	\$ (1,026)
Fees for financially related services	1,934	2,639	(705)	3,179	4,059	(880)
Gains (losses) from other property owned, net	(6,558)	(3,866)	(2,692)	(17,004)	(4,431)	(12,573)
Gains (losses) on investments, net	2,973	(77)	3,050	2,973	1,406	1,567
Net impairment losses on investments	(3,652)	(3,227)	(425)	(8,110)	(9,985)	1,875
Gains (losses) on sale of rural home loans, net	602	592	10	951	952	(1)
Gains from sale of premises and equipment, net	466	225	241	566	308	258
Patronage refunds from other Farm Credit institutions	4	(104)	108	136	525	(389)
Insurance premium refund	—	—	—	—	34,327	(34,327)
Other noninterest income	(11)	799	(810)	2,284	2,345	(61)
Total noninterest income	\$ 6,195	\$ 7,780	\$ (1,585)	\$ 5,603	\$ 51,160	\$ (45,557)

The decrease of total noninterest income of \$1.6 million for the three months ended June 30, 2011 compared to the three months ended June 30, 2010 was due primarily to the increase in losses from other property owned of \$2.7 million and a decrease in other noninterest income of \$810 thousand. The decrease in other noninterest income was primarily due to the recording of reserves for unfunded commitments. Offsetting these decreases was a \$3.1 million increase in gains on investments. These sales were primarily the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio.

The decrease of total net noninterest income of \$45.6 million for the six month period ended June 30, 2011 compared to the six months ended June 30, 2010 was due primarily to the District's recording \$34.3 million of insurance premium refunds during the first quarter of 2010 from the FCSIC, which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. No refunds were received during the first half of 2011.

The decrease in total noninterest income for the six months ended June 30, 2011, was also due to \$17.0 million losses from other property owned compared to \$4.4 million for the same period in 2010. See discussion in *Other Property Owned* section.

Offsetting the decreases to noninterest income was a decrease of \$1.9 million in the recognition of credit related other-than-temporary impairment on several of the District's investment securities for the six months ended June 30, 2011, compared to the same period of 2010. See discussion of 2011 credit related other-than-temporary impairment above.

Also offsetting the decrease in noninterest income were increases of \$1.6 million in gains on the sales of investment securities for the six months ended June 30, 2011. Sales in both periods were primarily the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio as mentioned above.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense <i>(dollars in thousands)</i>	For the three months ended June 30,			For the six months ended June 30,		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
Salaries and employee benefits	\$ 61,984	\$ 60,248	\$ 1,736	\$ 125,505	\$ 120,395	\$ 5,110
Occupancy and equipment	8,325	8,862	(537)	16,991	17,623	(632)
Insurance Fund premiums	3,474	191	3,283	6,939	6,291	648
Other operating expenses	19,924	18,297	1,627	40,800	37,961	2,839
Called debt expense	4,416	12,321	(7,905)	5,859	18,106	(12,247)
Correspondent lending servicing expense	2,222	2,112	110	4,487	4,057	430
Other noninterest expense	34	70	(36)	104	139	(35)
Total noninterest expense	\$ 100,379	\$ 102,101	\$ (1,722)	\$ 200,685	\$ 204,572	\$ (3,887)

Noninterest expense for the three months ended June 30, 2011 was \$100.4 million, which reflected a decrease of \$1.7 million compared to the corresponding period in 2010. The decrease for the three month period was due primarily to the decrease in called debt expense, offset by the increase in FCSIC premiums. For the six months ended June 30, 2011, noninterest expense was \$200.7 million, which reflected a decrease of \$3.9 million compared to the corresponding period in 2010. The decrease of \$3.9 million for the six month period was due primarily to the decrease in called debt expense, offset by an increase of \$5.1 million in salaries and employee benefits.

FCSIC premiums increased \$3.3 million and \$648 thousand for the three and six month periods due primarily to a change in the premium rate charged. The 2011 base annual premium rate is 6 basis points. In June 2010, the base annual premium rate was reduced from 10 basis points to 5 basis points retroactive to January 1, 2010. The retroactive adjustment was completely reflected in June 2010.

Concession or debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized concession is expensed. Called debt expense decreased \$7.9 million (64.16 percent) for the three month period and \$12.2 million (67.64 percent) for the six month period. Call options were exercised on bonds totaling \$6.831 billion for the six months ended June 30, 2011 compared to \$12.779 billion for the same period of 2010. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

Other operating expenses are comprised of numerous and varied expenses, none of which individually had a significant increase in the three months and six months ended June 30, 2011 compared to the same periods in 2010.

Occupancy and equipment expense for the three months and six months ended June 30, 2011 decreased \$537 thousand and \$632 thousand, respectively. These decreases were due primarily to the end of depreciation expense on several capitalized projects which fully depreciated in January 2011.

The increase in salaries and employee benefits for the quarter and six month period ended June 30, 2011 is due primarily to normal salary administration and increased employee benefit costs.

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

REGULATORY MATTERS

The FCA entered into written supervisory agreements with two District Associations in 2010 and one additional District Association during 2011. During 2011, the FCA also entered into a new written supervisory agreement with one District Association, replacing its prior written supervisory agreement issued in 2010. The combined assets of these three

Associations totaled less than \$965.0 million at June 30, 2011. The written supervisory agreements require those District Associations to take corrective actions with respect to certain areas of their operations, including capital, portfolio management, and asset quality. These enforcement actions are not expected to have a significant impact on the Bank's or District's financial condition or results of operations. While the FCA has not taken any other enforcement actions against the Bank or other District Associations during 2011, three additional District Associations were subject to special supervision by the FCA at June 30, 2011, subjecting them to additional regulatory scrutiny.

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

Financial Regulatory Reform

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

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

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

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

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

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

DISTRICT MERGER ACTIVITY

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Combined Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2011 <i>(unaudited)</i>	December 31, 2010 <i>(audited)</i>
Assets		
Cash and cash equivalents	\$ 1,226,459	\$ 1,463,700
Investment securities:		
Available for sale (amortized cost of \$7,023,306 and \$6,981,952 respectively)	7,114,942	7,025,290
Held to maturity (fair value of \$1,145,773 and \$1,298,088 respectively)	1,077,357	1,234,262
Total investment securities	8,192,299	8,259,552
Loans	22,915,572	23,032,893
Less: allowance for loan losses	184,476	182,329
Net loans	22,731,096	22,850,564
Loans held for sale	8,173	11,340
Other investments	231,840	305,959
Accrued interest receivable	201,361	195,966
Investments in other Farm Credit System institutions	11,623	11,479
Premises and equipment, net	124,371	125,695
Other property owned	137,565	146,416
Other assets	149,424	179,336
Total assets	\$ 33,014,211	\$ 33,550,007
Liabilities		
Bonds and notes	\$ 27,834,974	\$ 28,525,569
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividend payable	53,257	57,943
Dividends and patronage refunds payable	8,978	98,694
Pension and other postretirement benefits liability	347,333	336,741
Advance conditional payments	8,215	6,842
Other liabilities	119,647	142,538
Total liabilities	28,597,404	29,393,327
Commitments and contingencies (Note 6)		
Shareholders' Equity		
Perpetual preferred stock	400,000	400,000
Protected borrower equity	3,415	3,641
Capital stock and participation certificates	152,318	150,031
Additional paid in capital (Note 11)	7,922	—
Retained earnings		
Allocated	1,290,298	1,318,996
Unallocated	2,789,527	2,575,592
Accumulated other comprehensive income (loss)	(226,673)	(291,580)
Total shareholders' equity	4,416,807	4,156,680
Total liabilities and equity	\$ 33,014,211	\$ 33,550,007

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

Combined Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Interest Income				
Investment securities	\$ 51,648	\$ 50,134	\$ 102,612	\$ 100,557
Loans	301,402	304,991	598,510	610,067
Other	2,804	3,825	5,673	7,754
Total interest income	355,854	358,950	706,795	718,378
Interest Expense				
	77,623	102,115	158,262	205,878
Net interest income	278,231	256,835	548,533	512,500
Provision for loan losses	55,221	38,799	88,892	56,991
Net interest income after provision for loan losses	223,010	218,036	459,641	455,509
Noninterest Income				
Loan fees	10,437	10,799	20,628	21,654
Fees for financially related services	1,934	2,639	3,179	4,059
Gains (losses) from other property owned, net	(6,558)	(3,866)	(17,004)	(4,431)
Gains (losses) on investments, net	2,973	(77)	2,973	1,406
Total other-than-temporary impairment losses on investments (Note 2)	(402)	(180)	(2,879)	(2,110)
Portion of loss recognized in other comprehensive income (loss) (Note 2)	(3,250)	(3,047)	(5,231)	(7,875)
Net other-than-temporary impairment losses on investments	(3,652)	(3,227)	(8,110)	(9,985)
Gains (losses) on sale of rural home loans, net	602	592	951	952
Gains from sale of premises and equipment, net	466	225	566	308
Patronage refunds from other Farm Credit institutions	4	(104)	136	525
Insurance premium refund	—	—	—	34,327
Other noninterest income	(11)	799	2,284	2,345
Total noninterest income	6,195	7,780	5,603	51,160
Noninterest Expenses				
Salaries and employee benefits	61,984	60,248	125,505	120,395
Occupancy and equipment	8,325	8,862	16,991	17,623
Insurance Fund premiums	3,474	191	6,939	6,291
Other operating expenses	19,924	18,297	40,800	37,961
Called debt expense	4,416	12,321	5,859	18,106
Correspondent lending servicing expense	2,222	2,112	4,487	4,057
Other noninterest expense	34	70	104	139
Total noninterest expenses	100,379	102,101	200,685	204,572
Income before income taxes	128,826	123,715	264,559	302,097
Provision (benefit) for income taxes	261	(75)	459	28
Net income	\$ 128,565	\$ 123,790	\$ 264,100	\$ 302,069

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Additional Paid in Capital	Retained Earnings		Accumulated Other Comprehensive Income	Total Shareholders' Equity
					Allocated	Unallocated		
Balance at December 31, 2009	\$ 400,000	\$ 4,205	\$ 138,504	\$ —	\$ 1,199,441	\$ 2,323,523	\$ (438,646)	\$ 3,627,027
Comprehensive income								
Net income						302,069		302,069
Unrealized gains (losses) on investments available for sale:								
Other-than-temporarily impaired (Note 2)							5,066	
Not-other-than-temporarily impaired (Note 2)							94,681	
Total unrealized gains (losses) on investments available for sale								99,747
Employee benefit plans adjustments							13,388	13,388
Total comprehensive income								415,204
Protected borrower equity retired		(351)						(351)
Capital stock/participation certificates issued (retired), net			12,515					12,515
Dividends declared/paid			140			(358)		(218)
Perpetual preferred stock dividends paid						(13,706)		(13,706)
Patronage distribution								
Cash						(7,091)		(7,091)
Retained earnings retired					(27,384)			(27,384)
Patronage distribution adjustment					(1,456)	1,866		410
Balance at June 30, 2010	\$ 400,000	\$ 3,854	\$ 151,159	\$ —	\$ 1,170,601	\$ 2,606,303	\$ (325,511)	\$ 4,006,406
Balance at December 31, 2010	\$ 400,000	\$ 3,641	\$ 150,031	\$ —	\$ 1,318,996	\$ 2,575,592	\$ (291,580)	\$ 4,156,680
Comprehensive income								
Net income						264,100		264,100
Unrealized gains (losses) on investments available for sale:								
Other-than-temporarily impaired (Note 2)							2,042	
Not other-than-temporarily impaired (Note 2)							46,258	
Total unrealized gains (losses) on investments available for sale								48,300
Change in value of firm commitments - when issued securities (Note 8)							2,080	2,080
Employee benefit plans adjustments							14,527	14,527
Total comprehensive income								329,007
Protected borrower equity retired		(226)						(226)
Capital stock/participation certificates issued (retired), net			2,059					2,059
Dividends declared/paid			235			(383)		(148)
Perpetual preferred stock dividends paid						(13,706)		(13,706)
Patronage distribution								
Cash						(6,018)		(6,018)
Nonqualified allocated retained earnings					14	(14)		—
Retained earnings retired					(28,991)			(28,991)
Equity issued as result of merger (Note 11)		267	1,936	7,922				10,125
Equity retired as result of merger		(267)	(1,936)			(31,458)		(33,661)
Patronage distribution adjustment			(7)		279	1,414		1,686
Balance at June 30, 2011	\$ 400,000	\$ 3,415	\$ 152,318	\$ 7,922	\$ 1,290,298	\$ 2,789,527	\$ (226,673)	\$ 4,416,807

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 264,100	\$ 302,069
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	8,260	9,010
Amortization of net deferred loan origination (fees) costs	(5,975)	(5,141)
Premium amortization (discount accretion) on investment securities	7,812	11,643
(Premium amortization) discount accretion on bonds and notes	(1,172)	(4,586)
Provision for loan losses	88,892	56,991
(Gains) losses on other property owned	17,004	4,431
(Gains) losses from sale of premises and equipment, net	(566)	(308)
Net impairment losses on investments	8,110	9,985
(Gains) losses on investments, net	(2,973)	(1,406)
Gains (losses) on sales of rural home loans, net	(951)	(952)
Net change in loans held for sale	16,299	10,163
(Increase) decrease in accrued interest receivable	(5,395)	2,829
(Increase) decrease in other assets	19,597	2,390
Increase (decrease) in accrued interest payable	(4,686)	(27,551)
Increase (decrease) in pension and other postretirement benefits liability	10,472	11,402
Increase (decrease) in other liabilities	(16,474)	(45,814)
Total adjustments	138,254	33,086
Net cash provided by (used in) operating activities	402,354	335,155
Cash flows from investing activities:		
Investment securities purchased	(766,091)	(1,125,214)
Proceeds from investment securities sold or matured	872,544	1,264,764
Net (increase) decrease in loans	(36,398)	197,213
(Increase) decrease in investments in other Farm Credit System institutions	(144)	11,638
Purchases of other investments	(2,198)	(2,993)
Proceeds from payments received on other investments	82,542	81,346
Purchase of premises and equipment, net	(7,469)	(6,422)
Proceeds from sale of premises and equipment, net	1,099	535
Proceeds from sale of other property owned	34,006	23,571
Net cash provided by (used in) investing activities	177,891	444,438
Cash flows from financing activities:		
Bonds and notes issued	16,011,227	29,933,669
Bonds and notes retired	(16,695,026)	(30,133,525)
Net increase (decrease) in advance conditional payments	1,373	1,606
Protected borrower equity retired	(226)	(351)
Capital stock and participation certificates issued/retired, net	2,059	12,515
Patronage refunds and dividends paid	(94,196)	(76,507)
Dividends paid on perpetual preferred stock	(13,706)	(13,706)
Retained earnings retired	(28,991)	(27,384)
Net cash provided by (used in) financing activities	(817,486)	(303,683)
Net increase (decrease) in cash and cash equivalents	(237,241)	475,910
Cash and cash equivalents, beginning of period	1,463,700	981,041
Cash and cash equivalents, end of period	\$ 1,226,459	\$ 1,456,951
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	\$ 5,014	\$ 2,885
Loans transferred to other property owned	47,173	67,324
Change in unrealized gains (losses) on investments, net	48,300	99,747
Employee benefit plans adjustments	14,527	13,388
Equity issued as result of merger (Note 11)	10,125	—
Equity retired as result of merger	(33,661)	—
Adjustment of allowance for loan losses related to Association mergers (Note 3)	(16,097)	—
Change in fair value of derivative instruments (Note 8)	(8,769)	—
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	\$ (10,315)	\$ 6,309
Decrease (increase) in other assets	10,315	(6,081)
Increase (decrease) in other liabilities	—	(228)
Supplemental information:		
Interest paid	\$ 164,120	\$ 238,015
Taxes paid, net	432	716

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

Notes to the Combined Financial Statements

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

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

Organization and Significant Accounting Policies

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

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011.

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

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

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

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

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

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

Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. This guidance is to be applied retrospectively. For public entities, it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligning the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifying that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

In April 2011, the FASB issued guidance entitled, “A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring,” which provides for clarification on whether a restructuring constitutes a troubled debt restructuring (TDR). In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities, including the District, for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The guidance should be applied retrospectively to the beginning of the annual period of adoption. The new disclosures about TDR activity required by the guidance on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,” as discussed below, are effective for annual reporting periods ending after December 15, 2011. The impact of adoption of this guidance, if any, is expected to be immaterial to the District’s financial condition and results of operations, but it will result in additional disclosures.

In January 2011, the FASB issued guidance entitled, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings.” This guidance temporarily delayed the effective date of the disclosures about TDRs required by the guidance previously issued on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The effective date of the new disclosures about TDRs coincides with the guidance for determining what constitutes a TDR as described above.

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

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

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

NOTE 2 — INVESTMENT SECURITIES

Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments follows:

<i>(dollars in thousands)</i>	June 30, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. GNMA					
MBS/CMOs	\$ 4,992,477	\$ 147,788	\$ (4,289)	\$ 5,135,976	2.43%
U.S. Govt. Agency MBS	1,640,390	23,509	(16,093)	1,647,806	1.42
Non-Agency CMOs (a)	312,602	383	(53,656)	259,329	0.55
Commercial MBS	788	—	(251)	537	4.87
Asset-Backed Securities (a)	36,866	1,436	(8,850)	29,452	0.59
Mission Related Investments	40,183	2,019	(360)	41,842	6.26
Total	\$ 7,023,306	\$ 175,135	\$ (83,499)	\$ 7,114,942	2.12%

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

- (a) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of \$13.8 million for Non-Agency CMOs and \$6.9 million for Asset-Backed Securities.
- (b) Gross unrealized losses include non-credit related other-than temporary impairment recognized in AOCI of \$14.2 million for Non-Agency CMOs and \$9.1 million for Asset-Backed Securities.

Held-to-maturity

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments follows:

<i>(dollars in thousands)</i>	June 30, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Contractual Yield
U.S. Govt. Agency MBS	\$ 795,333	\$ 60,482	\$ (226)	\$ 855,589	5.20%
Asset-Backed Securities	79,486	769	(506)	79,749	1.60
Mission Related Investments	202,538	8,916	(1,019)	210,435	6.02
Total	\$ 1,077,357	\$ 70,167	\$ (1,751)	\$ 1,145,773	5.09%

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

A summary of the expected maturity, estimated fair value and amortized cost of investment securities at June 30, 2011 follows:

Available-for-sale

<i>(dollars in thousands)</i>	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	
	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Govt. GNMA MBS/CMOs	\$ —	—%	\$ —	—%	\$ 1,208	0.80%	\$ 5,134,768	2.43%	\$ 5,135,976	2.43%
U.S. Govt. Agency MBS	—	—	16,586	4.69	36,127	0.68	1,595,093	1.41	1,647,806	1.42
Non-Agency CMOs	—	—	—	—	—	—	259,329	0.55	259,329	0.55
Commercial MBS	—	—	—	—	—	—	537	4.87	537	4.87
Asset-Backed Securities	—	—	—	—	—	—	29,452	0.59	29,452	0.59
Mission Related Investments	—	—	1,435	6.26	1,612	6.26	38,795	6.26	41,842	6.26
Total fair value	\$ —	—%	\$ 18,021	4.82%	\$ 38,947	0.90%	\$ 7,057,974	2.12%	\$ 7,114,942	2.12%
Total amortized cost	\$ —		\$ 16,948		\$ 38,744		\$ 6,967,614		\$ 7,023,306	

Held-to-maturity

<i>(dollars in thousands)</i>	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	
	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Govt. Agency MBS	\$ —	—%	\$ —	—%	\$ 1,590	4.95%	\$ 793,743	5.20%	\$ 795,333	5.20%
Asset-Backed Securities	1,518	1.89	9,682	1.28	46,627	1.58	21,659	1.77	79,486	1.60
Mission Related Investments	—	—	24,717	6.64	32,128	6.10	145,693	5.90	202,538	6.02
Total amortized cost	\$ 1,518	1.89%	\$ 34,399	5.13%	\$ 80,345	3.45%	\$ 961,095	5.23%	\$ 1,077,357	5.09%
Total fair value	\$ 1,521		\$ 35,702		\$ 83,464		\$ 1,025,086		\$ 1,145,773	

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 half of 2011, proceeds from sales of investments were \$57.3 million and realized gains were \$3.0 million. During the second quarter of 2010, proceeds from sales of investment securities were \$100.4 million and net realized gains were \$1.4 million.

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

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

The District's MBSs are collateralized by U.S. Government or U.S. Agency guaranteed residential mortgages and all were rated AAA/Aaa at June 30, 2011. Non-agency CMO securities not rated in the top category by at least one of the NRSROs at June 30, 2011 had a fair value of \$191.2 million. ABSs not rated in the top category by at least one of the NRSROs at June 30, 2011 had a fair value of \$19.9 million. For each of these investment securities in the District's portfolio rated below AAA/Aaa, the District has developed and submitted plans for approval by the FCA that provide that the securities may be held to maturity. The FCA has approved, with conditions, the District's plans for all but one investment that has recently become ineligible. The District is in the process of submitting a plan to hold this one investment to the FCA for approval.

The fair value of all investments at June 30, 2011 split rated AAA/Aaa or lower by the NRSROs totaled \$279.6 million (amortized cost of \$339.3 million). This represents approximately 3.39 percent (and 4.19 percent) of total fair value (and amortized cost) of the District's total investment portfolio at June 30, 2011. Split rated AAA/Aaa is defined as a security maintaining different ratings by the NRSROs with at least one NRSRO rating the security AAA/Aaa.

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

An investment is considered impaired if its fair value is less than its cost. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following table shows the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at June 30, 2011 and December 31, 2010. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	June 30, 2011					
	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	\$ 181,842	\$ (425)	\$ 284,610	\$ (3,864)	\$ 466,452	\$ (4,289)
U.S. Govt. Agency MBS	214,781	(887)	552,393	(15,432)	767,174	(16,319)
Non-Agency CMOs	-	-	257,953	(53,656)	257,953	(53,656)
Asset-Backed Securities	4,072	(50)	47,517	(9,306)	51,589	(9,356)
Mortgage-Backed Securities	-	-	537	(251)	537	(251)
Mission Related Investments	48,195	(1,379)	-	-	48,195	(1,379)
Total	\$ 448,890	\$ (2,741)	\$ 1,143,010	\$ (82,509)	\$ 1,591,900	\$ (85,250)

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

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

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

2011 of \$2.9 million in connection with ABS securities and non-agency CMO securities in its portfolio, which is included in Impairment Losses on Investments in the Combined Statements of Income.

Since the District does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the other-than-temporary impairment of \$2.9 million is separated into: (1) the estimated amount relating to credit loss (\$8.1 million reflected in Net Income in the Combined Statements of Income), which is partially offset by (2) the amount relating to all other factors (\$5.2 million reflected in other comprehensive income in the Combined Statement of Changes in Shareholders' Equity).

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

Significant inputs used in this technique to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The District obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The forecasted cumulative default rates used at June 30, 2011 ranged from 2.02 percent to 49.54 percent for non-agency CMO securities and from 24.15 percent to 88.52 percent for ABS securities. Prepayment rate assumptions are based on forecasted prepayments and resulted in prepayment rates that ranged from 4.08 percent to 11.39 percent for non-agency CMO securities and from 2.81 percent to 5.05 percent for ABS securities at June 30, 2011. At June 30, 2011, the loss severity rates estimated from assumptions ranged from 6.11 percent to 68.02 percent for non-agency CMO securities and from 70.32 percent to 100.00 percent for ABS securities.

For all investments, other than the other-than-temporarily impaired securities discussed above, the District has not recognized any other-than-temporary impairment as the unrealized losses resulted from non-credit related factors. The District has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. Government agency securities and the District expects these securities would not be settled at a price less than their amortized cost. For the six months ended June 30, 2011, net unrealized gains of \$46.3 million were recognized in other comprehensive income for not other-than-temporarily impaired available-for-sale investments.

The following schedules detail the activity related to cumulative credit losses on investments recognized in earnings as of June 30, 2011 and 2010:

<i>(dollars in thousands)</i>	For the six months ended June 30, 2011
Beginning balance at January 1, 2011	\$ 45,077
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	1,463
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	6,646
Reductions for increases in expected cash flows	(620)
Ending balance at June 30, 2011	\$ 52,566

<i>(dollars in thousands)</i>	For the six months ended June 30, 2010
Beginning balance at January 1, 2010	\$ 33,445
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	221
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	9,764
Ending balance at June 30, 2010	\$ 43,430

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

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

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

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

A summary of loans outstanding follows:

<i>(dollars in thousands)</i>	June 30, 2011	December 31, 2010
Real estate mortgage	\$ 9,879,533	\$ 9,986,760
Production and intermediate-term Agribusiness	8,111,717	8,105,060
Loans to cooperatives	336,066	304,161
Processing and marketing	1,240,269	1,355,811
Farm-related business	322,522	342,984
Total agribusiness	1,898,857	2,002,956
Communication	203,356	200,578
Energy	307,341	342,614
Water and waste disposal	28,022	28,024
Rural residential real estate	2,380,881	2,258,480
Lease receivables	8,650	10,697
Loans to other financial institutions (OFIs)	16,000	5,000
Other (including mission-related)	81,215	92,724
Total Loans	\$ 22,915,572	\$ 23,032,893

The District may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. The following tables present participations purchased and sold balances at June 30, 2011 and December 31, 2010:

<i>(dollars in thousands)</i>	June 30, 2011					
	Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 121,369	\$ 66,616	\$ 123,566	\$ 5,266	\$ 244,935	\$ 71,882
Production and intermediate-term	293,287	300,834	547,399	31,277	840,686	332,111
Agribusiness						
Loans to cooperatives	300,151	-	32,725	-	332,876	-
Processing and marketing	373,656	33,942	610,153	27,546	983,809	61,488
Farm-related business	108,216	7,102	11,704	-	119,920	7,102
Total agribusiness	782,023	41,044	654,582	27,546	1,436,605	68,590
Communication	203,585	-	-	-	203,585	-
Energy	283,252	-	21,280	-	304,532	-
Water and waste disposal	28,000	-	-	-	28,000	-
Rural residential real estate	-	-	531	-	531	-
Lease receivables	2,396	-	-	-	2,396	-
Loans to OFIs	-	-	16,000	-	16,000	-
Other (including mission-related)	-	-	10,228	-	10,228	-
Total	\$ 1,713,912	\$ 408,494	\$ 1,373,586	\$ 64,089	\$ 3,087,498	\$ 472,583

<i>(dollars in thousands)</i>	December 31, 2010					
	Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 140,835	\$ 54,335	\$ 346,913	\$ 29,115	\$ 487,748	\$ 83,450
Production and intermediate-term	278,402	348,640	359,187	3,396	637,589	352,036
Agribusiness						
Loans to cooperatives	227,828	-	38,628	-	266,456	-
Processing and marketing	443,756	33,961	669,883	28,599	1,113,639	62,560
Farm-related business	58,881	5,975	39,893	-	98,774	5,975
Total agribusiness	730,465	39,936	748,404	28,599	1,478,869	68,535
Communication	198,433	-	-	-	198,433	-
Energy	315,137	-	22,434	-	337,571	-
Water and waste disposal	28,000	-	-	-	28,000	-
Rural residential real estate	-	-	539	-	539	-
Lease receivables	3,565	-	-	-	3,565	-
Loans to OFIs	-	-	5,000	-	5,000	-
Other (including mission-related)	-	-	11,759	-	11,759	-
Total	\$ 1,694,837	\$ 442,911	\$ 1,494,236	\$ 61,110	\$ 3,189,073	\$ 504,021

A significant source of liquidity for the District is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at June 30, 2011 and indicates that approximately 21.69 percent of loans had maturities of less than one year:

<i>(dollars in thousands)</i>	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 997,281	\$ 2,864,943	\$ 6,017,309	\$ 9,879,533
Production and intermediate-term	3,046,154	3,157,100	1,908,463	8,111,717
Agribusiness				
Loans to cooperatives	155,395	120,495	60,176	336,066
Processing and marketing	536,682	525,523	178,064	1,240,269
Farm-related business	59,662	186,011	76,849	322,522
Total agribusiness	751,739	832,029	315,089	1,898,857
Communication	83,473	99,993	19,890	203,356
Energy	52,203	96,505	158,633	307,341
Water and waste disposal	22	-	28,000	28,022
Rural residential real estate	32,018	78,296	2,270,567	2,380,881
Lease receivables	6,716	1,755	179	8,650
Loans to OFIs	-	16,000	-	16,000
Other (including mission-related)	1,836	4,778	74,601	81,215
Total Loans	\$ 4,971,442	\$ 7,151,399	\$ 10,792,731	\$ 22,915,572

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010		June 30, 2011	December 31, 2010
Real estate mortgage:			Communication:		
Acceptable	87.41%	87.46%	Acceptable	100.00%	98.83%
OAEM	5.82	5.48	OAEM	—	—
Substandard/doubtful/loss	6.77	7.06	Substandard/doubtful/loss	—	1.17
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Energy and water/waste disposal:		
Acceptable	84.48%	83.80%	Acceptable	96.20%	95.64%
OAEM	7.80	9.10	OAEM	2.61	3.26
Substandard/doubtful/loss	7.72	7.10	Substandard/doubtful/loss	1.19	1.10
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Agribusiness:			Rural residential real estate:		
Loans to cooperatives:			Acceptable	98.59%	98.40%
Acceptable	90.97%	86.38%	OAEM	0.49	0.57
OAEM	8.24	11.93	Substandard/doubtful/loss	0.92	1.03
Substandard/doubtful/loss	0.79	1.69		<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>	Lease receivables:		
Processing and marketing:			Acceptable	89.38%	92.48%
Acceptable	80.28%	76.94%	OAEM	3.75	2.51
OAEM	8.79	12.08	Substandard/doubtful/loss	6.87	5.01
Substandard/doubtful/loss	10.93	10.98		<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>	Loans to OFIs:		
Farm-related business:			Acceptable	100.00%	100.00%
Acceptable	93.61%	92.55%	OAEM	—	—
OAEM	3.56	3.58	Substandard/doubtful/loss	—	—
Substandard/doubtful/loss	2.83	3.87		<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>	Other (including mission-related):		
Total Agribusiness:			Acceptable	82.87%	77.07%
Acceptable	84.44%	81.05%	OAEM	8.96	7.91
OAEM	7.80	10.60	Substandard/doubtful/loss	8.17	15.02
Substandard/doubtful/loss	7.76	8.35		<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>	Total Loans:		
			Acceptable	87.51%	86.87%
			OAEM	6.04	6.65
			Substandard/doubtful/loss	6.45	6.48
				<u>100.00%</u>	<u>100.00%</u>

The following tables provide an age analysis of past due loans and related accrued interest as of June 30, 2011 and December 31, 2010:

(dollars in thousands)	June 30, 2011					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 137,946	\$ 304,178	\$ 442,124	\$ 9,527,318	\$ 9,969,442	\$ 5,838
Production and intermediate-term Agribusiness	86,860	212,983	299,843	7,883,716	8,183,559	489
Loans to cooperatives	732	3,602	4,334	332,949	337,283	909
Processing and marketing	11,666	20,908	32,574	1,212,509	1,245,083	—
Farm-related business	978	7,462	8,440	315,899	324,339	—
Total agribusiness	13,376	31,972	45,348	1,861,357	1,906,705	909
Communication	—	—	—	203,654	203,654	—
Energy and water/waste disposal	—	6,251	6,251	330,659	336,910	—
Rural residential real estate	47,390	12,793	60,183	2,329,658	2,389,841	5,388
Lease receivables	—	225	225	8,473	8,698	—
Loans to OFIs	—	—	—	16,020	16,020	—
Other (including mission-related)	3,341	100	3,441	78,695	82,136	—
Total	\$ 288,913	\$ 568,502	\$ 857,415	\$ 22,239,550	\$ 23,096,965	\$ 12,624

AgFirst Farm Credit Bank and District Associations

December 31, 2010

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

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

Nonperforming assets (including related accrued interest) and related credit quality statistics at June 30, 2011 and December 31, 2010 are summarized as follows:

<i>(dollars in thousands)</i>	June 30, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	\$ 397,149	\$ 405,976
Production and intermediate-term Agribusiness	386,764	317,832
Loans to cooperatives	2,680	4,911
Processing and marketing	24,602	36,302
Farm-related business	8,030	8,195
Total agribusiness	35,312	49,408
Communication	-	2,358
Energy and water/waste disposal	10,273	-
Rural residential real estate	12,519	12,246
Lease receivables	410	279
Other (including mission-related)	1,697	6,977
Total nonaccrual loans	\$ 844,124	\$ 795,076
Accruing restructured loans:		
Real estate mortgage	\$ 9,807	\$ 7,730
Production and intermediate-term Agribusiness	14,906	10,818
Loans to cooperatives	-	-
Processing and marketing	28,053	30,683
Farm-related business	-	-
Total agribusiness	28,053	30,683
Communication	-	-
Rural residential real estate	-	-
Lease receivables	-	-
Other (including mission-related)	-	-
Total accruing restructured loans	\$ 52,766	\$ 49,231
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 5,838	\$ 4,604
Production and intermediate-term Agribusiness	489	1,195
Loans to cooperatives	909	-
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	909	-
Communication	-	-
Rural residential real estate	5,388	6,374
Lease receivables	-	-
Other (including mission-related)	-	543
Total accruing loans 90 days or more past due	\$ 12,624	\$ 12,716
Total nonperforming loans	\$ 909,514	\$ 857,023
Other property owned	137,565	146,416
Total nonperforming assets	\$ 1,047,079	\$ 1,003,439
Nonaccrual loans as a percentage of total loans	3.68%	3.45%
Nonperforming assets as a percentage of total loans and other property owned	4.54%	4.33%
Nonperforming assets as a percentage of capital	23.71%	24.14%

The following table presents information relating to impaired loans (including accrued interest) at June 30, 2011 and December 31, 2010. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

<i>(dollars in thousands)</i>	June 30, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 204,779	\$ 268,131
Past due	639,345	526,945
Total impaired nonaccrual loans	<u>844,124</u>	<u>795,076</u>
Impaired accrual loans:		
Restructured	52,766	49,231
90 days or more past due	12,624	12,716
Total impaired accrual loans	<u>65,390</u>	<u>61,947</u>
Total impaired loans	<u>\$ 909,514</u>	<u>\$ 857,023</u>

Additional impaired loan information as of June 30, 2011 and December 31, 2010 is summarized as follows:

<i>(dollars in thousands)</i>	June 30, 2011			Quarter Ended June 30, 2011		For the Six Months Ended June 30, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	\$ 144,029	\$ 164,782	\$ 25,277	\$ 147,758	\$ 673	\$ 140,878	\$ 979
Production and intermediate-term Agribusiness	180,109	210,234	44,708	183,519	895	176,696	1,293
Loans to cooperatives	-	-	-	-	(2)	-	-
Processing and marketing	7,078	7,250	1,110	6,699	(89)	5,501	15
Farm-related business	6,943	7,530	311	7,131	34	6,983	50
Total agribusiness	14,021	14,780	1,421	13,830	(57)	12,484	65
Energy and water/waste disposal	4,024	4,104	3,000	3,678	(22)	2,757	-
Rural residential real estate	5,750	7,430	1,568	5,905	30	5,783	41
Lease Receivables	143	162	53	147	1	144	1
Other (including mission-related)	1,697	1,879	220	1,551	-	1,163	-
Total	<u>\$ 349,773</u>	<u>\$ 403,371</u>	<u>\$ 76,247</u>	<u>\$ 356,388</u>	<u>\$ 1,520</u>	<u>\$ 339,905</u>	<u>\$ 2,379</u>
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 268,765	\$ 363,998	\$ -	\$ 264,325	\$ 1,158	\$ 260,381	\$ 1,870
Production and intermediate-term Agribusiness	222,050	271,601	-	226,111	1,190	215,774	1,540
Loans to cooperatives	3,589	2,892	-	4,202	45	4,341	51
Processing and marketing	45,577	67,292	-	44,243	506	42,919	990
Farm-related business	1,087	3,539	-	1,116	4	1,093	8
Total agribusiness	50,253	73,723	-	49,561	555	48,353	1,049
Energy and water/waste disposal	6,249	11,293	-	6,472	65	7,003	65
Rural residential real estate	12,157	14,302	-	11,009	165	11,095	190
Lease receivables	267	288	-	274	1	268	2
Other (including mission-related)	-	1,027	-	1,051	(13)	2,259	-
Total	<u>\$ 559,741</u>	<u>\$ 736,232</u>	<u>\$ -</u>	<u>\$ 558,803</u>	<u>\$ 3,121</u>	<u>\$ 545,133</u>	<u>\$ 4,716</u>
Total impaired loans:							
Real estate mortgage	\$ 412,794	\$ 528,780	\$ 25,277	\$ 412,083	\$ 1,831	\$ 401,259	\$ 2,849
Production and intermediate-term Agribusiness	402,159	481,835	44,708	409,630	2,085	392,470	2,833
Loans to cooperatives	3,589	2,892	-	4,202	43	4,341	51
Processing and marketing	52,655	74,542	1,110	50,942	417	48,420	1,005
Farm-related business	8,030	11,069	311	8,247	38	8,076	58
Total agribusiness	64,274	88,503	1,421	63,391	498	60,837	1,114
Energy and water/waste disposal	10,273	15,397	3,000	10,150	43	9,760	65
Rural residential real estate	17,907	21,732	1,568	16,914	195	16,878	231
Lease receivables	410	450	53	421	2	412	3
Other (including mission-related)	1,697	2,906	220	2,602	(13)	3,422	-
Total	<u>\$ 909,514</u>	<u>\$ 1,139,603</u>	<u>\$ 76,247</u>	<u>\$ 915,191</u>	<u>\$ 4,641</u>	<u>\$ 885,038</u>	<u>\$ 7,095</u>

AgFirst Farm Credit Bank and District Associations

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

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at June 30, 2011 and December 31, 2010.

A summary of changes in the allowance for loan losses and period end recorded investment in loans at June 30, 2011 and December 31, 2010 follows:

June 30, 2011

<i>(dollars in thousands)</i>	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including mission related)	Total
Allowance for credit losses:									
Balance at December 31, 2010	\$ 73,636	\$ 83,759	\$ 19,735	\$ 415	\$ 599	\$ 3,117	\$ 67	\$ 1,001	\$ 182,329
Charge-offs	(18,295)	(29,755)	(20,962)	–	(3,426)	(1,011)	(20)	(679)	(74,148)
Recoveries	1,592	992	32	825	–	59	–	–	3,500
Provision for loan losses	21,668	43,027	17,037	(844)	6,481	1,307	31	185	88,892
Adjustment due to merger	(8,845)	(5,948)	(1,101)	(10)	–	(193)	–	–	(16,097)
Other	(38)	24	(24)	–	–	38	–	–	–
Balance at June 30, 2011	\$ 69,718	\$ 92,099	\$ 14,717	\$ 386	\$ 3,654	\$ 3,317	\$ 78	\$ 507	\$ 184,476

June 30, 2011 allowance ending balance:

Loans individually evaluated for impairment	\$ 24,817	\$ 44,649	\$ 1,373	\$ –	\$ 3,000	\$ 1,508	\$ 53	\$ 220	\$ 75,620
Loans collectively evaluated for impairment	\$ 44,441	\$ 47,392	\$ 13,295	\$ 386	\$ 654	\$ 1,749	\$ 25	\$ 287	\$ 108,229
Loans acquired with deteriorated credit quality	\$ 460	\$ 58	\$ 49	\$ –	\$ –	\$ 60	\$ –	\$ –	\$ 627

Recorded investment in loans outstanding:

Ending Balance at June 30, 2011	\$ 9,969,442	\$ 8,183,559	\$ 1,906,705	\$ 203,654	\$ 336,910	\$ 2,389,841	\$ 8,698	\$ 98,156	\$ 23,096,965
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June 30, 2011 recorded investment ending balance:

Loans individually evaluated for impairment	\$ 563,979	\$ 692,549	\$ 319,551	\$ –	\$ 77,707	\$ 1,966,915	\$ 5,133	\$ 6,311	\$ 3,632,145
Loans collectively evaluated for impairment	\$ 9,371,044	\$ 7,476,610	\$ 1,585,429	\$ 203,654	\$ 259,203	\$ 421,150	\$ 3,565	\$ 91,845	\$ 19,412,500
Loans acquired with deteriorated credit quality	\$ 34,419	\$ 14,400	\$ 1,725	\$ –	\$ –	\$ 1,776	\$ –	\$ –	\$ 52,320

December 31, 2010

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

Purchased Impaired Loans Disclosures

District entities acquire loans individually and in groups or portfolios. For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the holder would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or whether such loans would be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

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

Valuation allowances for all purchased impaired loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

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

In connection with the merger, SFL (now FCFL) purchased impaired loans from NFL and SWFL that are not accounted for as debt securities. The carrying amounts of those loans included in the balance sheet amounts of loans receivable at June 30, 2011, were as follows.

<i>(dollars in thousands)</i>	June 30, 2011
Real estate mortgage	\$ 34,419
Production and intermediate-term	14,400
Agribusiness	
Loans to cooperatives	-
Processing and marketing	-
Farm-related business	1,725
Total agribusiness	1,725
Communication	-
Energy	-
Rural residential real estate	1,776
Total Loans	\$ 52,320

At June 30, 2011, the allowance for loan losses related to these loans was \$627 thousand. During the period ended June 30, 2011, provision expense on these loans was \$1,141. There were no reversals of allowance for loan losses during the period ended June 30, 2011 for these acquired loans. See above for a summary of changes in the total allowance for loan losses for the period ended June 30, 2011.

The total of loans acquired during the year for which it was probable at acquisition that all contractually required payments would not be collected are as follows.

<i>(dollars in thousands)</i>	June 30, 2011
Real estate mortgage	\$ 57,735
Production and intermediate-term	18,862
Agribusiness	
Loans to cooperatives	-
Processing and marketing	2,196
Farm-related business	1,734
Total agribusiness	3,930
Communication	-
Energy	-
Rural residential real estate	1,769
Total Loans	\$ 82,296

Certain of the loans acquired by FCFL in the business combination that are within the scope of purchased impaired loan guidance are not accounted for using that income recognition model because FCFL cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. As discussed previously, the real estate market in Florida is extremely unstable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, FCFL does not have the information necessary to reasonably estimate cash flows expected to be collected to compute its yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance. The purchase value of such impaired loans acquired during the year totaled \$82.3 million. The carrying amount at June 30, 2011 was \$52.3 million. These amounts are included in the carrying values, net of allowance, described above.

NOTE 4 — FAIR VALUE MEASUREMENT

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at June 30, 2011 and December 31, 2010 for each of the fair value hierarchy levels:

<i>(dollars in thousands)</i>	June 30, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	\$ —	\$ 5,135,976	\$ —	\$ 5,135,976
U.S. Govt. Agency MBS	—	1,647,806	—	1,647,806
Non-Agency CMOs	—	—	259,329	259,329
Commercial MBS	—	537	—	537
Asset-backed securities	—	—	29,452	29,452
Mission Related Investments	—	41,842	—	41,842
Total investments available-for-sale	—	6,826,161	288,781	7,114,942
Commercial paper, bankers' acceptances, CD's & others	—	54,561	—	54,561
Federal funds sold, securities purchased under resale agreements, and other	—	58,316	—	58,316
Interest rate swaps and other financial instruments	—	51,930	—	51,930
Assets held in trust funds	12,854	—	—	12,854
Total Assets	\$ 12,854	\$ 6,990,968	\$ 288,781	\$ 7,292,603
Liabilities:				
Interest rate swaps and other financial instruments	\$ —	\$ 12	\$ —	\$ 12
Collateral liabilities	—	20,375	—	20,375
Standby letters of credit	—	—	3,961	3,961
Total Liabilities	\$ —	\$ 20,387	\$ 3,961	\$ 24,348

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

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2011 and 2010. The District had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first six months of 2011 and 2010.

<i>(dollars in thousands)</i>	Asset-Backed Investment Securities	Non- Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2011	\$ 34,437	\$ 295,526	\$ 3,336
Total gains or (losses) realized/unrealized:			
Included in earnings	(2,963)	(4,527)	—
Included in other comprehensive income (loss)	1,353	8,850	—
Purchases	—	—	—
Sales	—	—	—
Issuances	—	—	905
Settlements	(3,375)	(40,520)	(280)
Transfers in and/or out of level 3	—	—	—
Balance at June 30, 2011	\$ 29,452	\$ 259,329	\$ 3,961

<i>(dollars in thousands)</i>	Asset-Backed Investment Securities	Non- Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2010	\$ 47,465	\$ 360,027	\$ 5,236
Total gains or (losses) realized/unrealized:			
Included in earnings	(7,139)	(2,847)	—
Included in other comprehensive income (loss)	2,098	14,484	—
Purchases, sales, issuances and settlements, net	(6,827)	(47,879)	(595)
Transfers in and/or out of level 3	—	—	—
Balance at June 30, 2010	\$ 35,597	323,785	\$ 4,641

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 June 30, 2011 and December 31, 2010 for each of the fair value hierarchy values are summarized below:

<i>(dollars in thousands)</i>	June 30, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ —	\$ —	\$ 239,264	\$ 239,264	\$ (74,628)
Other property owned	—	—	98,693	98,693	(14,910)

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

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the District’s financial instruments at June 30, 2011 and December 31, 2010. Carrying amounts include accrued interest if applicable.

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

<i>(dollars in thousands)</i>	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Loans, net of allowance	\$ 22,912,489	\$ 23,123,632	\$ 23,026,427	\$ 23,063,218
Derivative assets	51,930	51,930	62,245	62,245
Cash and cash equivalents	1,226,459	1,226,459	1,463,700	1,463,700
Investment securities	8,212,268	8,260,715	8,279,655	8,323,378
Other investments	231,840	242,863	305,959	319,168
Assets held in trust funds	12,854	12,854	11,511	11,511
Financial liabilities:				
Bonds and notes	\$ 27,887,391	\$ 27,890,266	\$ 28,582,672	\$ 28,485,071
Derivative liabilities	12	12	8,781	8,781

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

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

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

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

NOTE 6 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each Farm Credit System (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 System banks. The bonds and notes of the System totaled \$187.296 billion at June 30, 2011.

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

NOTE 7 — EMPLOYEE BENEFIT PLANS

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

<i>(dollars in thousands)</i>	For the six months ended June 30,	
	2011	2010
Pension	\$ 23,690	\$ 24,087
401k	3,214	2,944
Other postretirement benefits	5,175	4,290
Total	\$ 32,079	\$ 31,321

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

<i>(dollars in thousands)</i>	Actual YTD Through 6/30/11	Projected Contributions for Remainder of 2011	Projected Total Contributions 2011
Pensions	\$ 298	\$ 48,696	\$ 48,994
Other postretirement benefits	3,152	4,056	7,208
Total	<u>\$ 3,450</u>	<u>\$ 52,752</u>	<u>\$ 56,202</u>

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

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

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

The primary type of derivative instrument used and the amount of activity for the six months ended June 30, 2011 is summarized in the following table:

Notional Amounts <i>(dollars in millions)</i>	Receive- Fixed Swaps	Forward Contracts
Balance at beginning of period	\$ 1,135	\$ 445
Additions	–	244
Maturities/amortization	(200)	(688)
Terminations	–	–
Balance at end of period	<u>\$ 935</u>	<u>\$ 1</u>

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

To minimize the risk of credit losses, the District deals with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of and levels of exposure to individual counterparties. The estimated gross credit risk exposure at June 30, 2011 of \$51.9 million was with six counterparties and represented approximately 5.55 percent of the total notional amount of interest rate swaps. The District held \$20.4 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The District does not anticipate nonperformance by any of these counterparties. The estimated gross credit risk exposure at December 31, 2010 of \$62.2 million was with seven counterparties and represented approximately 5.48 percent of the total notional amount of interest rate swaps. The District held \$18.3 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The District typically enters into master agreements that contain netting provisions. These provisions allow the District to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties. At period end, the District had not posted collateral with respect to any of these arrangements.

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

Fair-Value Hedges

For derivative instruments designated as a fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the six months ended June 30, 2011 was \$10.3 million, while the amount of the gain on the Systemwide debt securities was \$10.3 million. The amount of the gain on interest rate swaps recognized in interest expense for the six months ended June 30, 2010 was \$6.1 million, while the amount of the loss on the Systemwide debt securities was \$6.1 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

From time to time, the District may acquire when-issued securities, generally Government National Mortgage Association (GNMA) bonds. The when-issued transactions are contracts to purchase securities that will not be delivered until 30, or more, days in the future. These purchase commitments are considered derivatives (cash flow hedges) in the form of forward contracts. Changes in market value of the contracted securities, between purchase and settlement date, represent the effective portion of the District's forward contracts. These amounts are included in Other Comprehensive Income (OCI), and Other Liabilities or Other Assets as appropriate, as firm commitments in the District's Combined Balance Sheet for each period end.

At December 31, 2010 the District had committed to purchase \$444.5 million in when-issued GNMA bonds that had a market value of \$435.7 million, an \$8.8 million decline in value. At June 30, 2011 the District had no such commitments.

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

Fair Values of Derivative Instruments

The following tables represent the fair value of derivative instruments at June 30, 2011 and December 31, 2010:

<i>(dollars in thousands)</i>	Balance Sheet Classification – Assets	6/30/11 Fair Value	Balance Sheet Classification – Liabilities	6/30/11 Fair Value
Derivatives designated as hedging instruments :				
Receive-fixed swaps	Other Assets	\$ 51,930	Other Liabilities	\$ –
Forward contracts	Other Assets	–	Other Liabilities	12
Total		<u>\$ 51,930</u>		<u>\$ 12</u>

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

The following table sets forth the amount of net gain (loss) recognized in the Combined Statement of Income for the six months ended June 30, 2011 and 2010.

<i>(dollars in thousands)</i>	Location of Gain or (Loss) Recognized in the Statement of Income	2011 Amount of Gain or (Loss) Recognized in the Statement of Income	2010 Amount of Gain or (Loss) Recognized in the Statement of Income
Derivatives – Fair Value Hedging Relationships:			
Receive-fixed swaps	Noninterest Income	\$ –	\$ 305
Total		<u>\$ –</u>	<u>\$ 305</u>

The following table sets forth the amount of net gain (loss) recognized in the Combined Statements of Income for the six months ended June 30, 2011 and 2010 and the amount of gain (loss) recognized in the Combined Balance Sheets for June 30, 2011 and December 31, 2010.

<i>(dollars in thousands)</i>	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2011	2010		2011	2010		2011	2010
Derivatives – Cash Flow Hedging Relationships:								
Firm Commitments	\$ 1,810	\$ (8,751)	Interest Income	\$ (270)	\$ –	Interest Income	\$ –	\$ –

NOTE 9 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data		
<i>(dollars in thousands)</i>	6/30/11 <i>(unaudited)</i>	12/31/10 <i>(audited)</i>
Cash, cash equivalents and investment securities	\$ 9,230,870	\$ 9,503,711
Loans	20,579,956	20,905,165
Less: allowance for loan losses	33,301	14,873
Net loans	20,546,655	20,890,292
Other assets	328,699	387,563
Total assets	<u>\$ 30,106,224</u>	<u>\$ 30,781,566</u>
Bonds and notes	\$ 27,631,638	\$ 28,325,569
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	118,534	328,216
Total liabilities	<u>27,975,172</u>	<u>28,878,785</u>
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	412,638	417,333
Retained earnings	1,237,472	1,053,119
Accumulated other comprehensive income (loss)	80,942	32,329
Total shareholders' equity	<u>2,131,052</u>	<u>1,902,781</u>
Total liabilities and equity	<u>\$ 30,106,224</u>	<u>\$ 30,781,566</u>

Statement of Income Data

<i>(dollars in thousands)</i>	For the six months ended June 30,	
	2011	2010
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interest income	\$ 450,071	\$ 485,734
Interest expense	158,511	205,088
Net interest income	291,560	280,646
Provision for loan losses	30,276	22,482
Net interest income after provision for loan losses	261,284	258,164
Noninterest expense, net	53,274	51,497
Net income	\$ 208,010	\$ 206,667

NOTE 10 — REGULATORY ENFORCEMENT MATTERS

The FCA entered into written supervisory agreements with two District Associations in 2010 and one additional District Association during 2011. During 2011, the FCA also entered into a new written supervisory agreement with one District Association, replacing its prior written supervisory agreement issued in 2010. The combined assets of these three Associations totaled less than \$965.0 million at June 30, 2011. The written supervisory agreements require those District Associations to take corrective actions with respect to certain areas of their operations, including capital, portfolio management, and asset quality. These enforcement actions are not expected to have a significant impact on the Bank's or District's financial condition or results of operations. While the FCA has not taken any other enforcement actions against the Bank or other District Associations during 2011, three additional District Associations were subject to special supervision by the FCA at June 30, 2011, subjecting them to additional regulatory scrutiny.

NOTE 11 – DISTRICT MERGER ACTIVITY

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

Prior to the merger, those Associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged Association. This agreement relates only to a finite pool of high risk assets of the merged Association existing at the merger date, which had a net total of approximately \$216.7 million and \$250.0 million at June 30, 2011, and January 1, 2011, respectively. Through this agreement, the merged Association will absorb substantial losses on these high risk assets in advance of the Bank providing financial assistance. This financial "safety net" from the Bank does not include losses that are sustained outside of the high risk asset pool. The agreement provides protection to the Bank, such as limitation on the Association's ability to make patronage distributions and certain other restrictions which are imposed if the merged Association's capital levels fail to meet minimum established levels. Assistance under the agreement, if any, is not expected to have a material impact on the financial condition of the Bank or District.

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

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers, and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the associations can issue stock only at its par value of \$5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of North Florida and Southwest Florida stock that were

converted in the merger and the shares of Farm Credit of Florida's stock to which they were converted had identical rights and attributes. For this reason, the conversion of North Florida and Southwest Florida stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each North Florida and Southwest Florida share was converted into one share of Florida's stock with an equal par value).

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

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

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

<i>(dollars in thousands)</i>	SW Florida <i>(unaudited)</i>	North Florida <i>(unaudited)</i>	South Florida <i>(unaudited)</i>	Florida <i>(unaudited)</i>
Assets	\$ —	\$ 13	\$ 2,790	\$ 2,803
Cash				
Investment securities:				
Held to maturity	39,553	—	1,987	41,540
Loans	215,972	385,302	559,912	1,161,186
Less: allowance for loan losses	—	—	10,679	10,679
Net loans	215,972	385,302	549,233	1,150,507
Other investments	—	10,639	—	10,639
Accrued interest receivable	1,405	1,871	2,086	5,362
Investments in other Farm Credit institutions	6,495	9,486	8,716	24,697
Premises and equipment, net	867	2,575	5,348	8,790
Other property owned	2,173	6,310	4,516	12,999
Due from AgFirst Farm Credit Bank	2,337	4,038	4,484	10,859
Other assets	4,924	3,887	4,658	13,469
Total assets	<u>\$ 273,726</u>	<u>\$ 424,121</u>	<u>\$ 583,818</u>	<u>\$ 1,281,665</u>
Liabilities				
Notes payable to AgFirst Farm Credit Bank	\$ 242,347	\$ 369,481	\$ 454,284	\$ 1,066,112
Accrued interest payable	482	823	1,006	2,311
Patronage refund payable	15	40	671	726
Advanced conditional payments	—	407	3,710	4,117
Other liabilities	3,312	4,345	5,119	12,776
Total liabilities	<u>246,156</u>	<u>375,096</u>	<u>464,790</u>	<u>1,086,042</u>
Commitments and contingencies				
Members' Equity				
Protected borrower stock	227	40	2,463	2,730
Capital stock and participation certificates	525	1,411	635	2,571
Additional paid in capital	1,341	6,702	(121)	7,922
Retained earnings				
Allocated	25,592	40,872	30,879	97,343
Unallocated	—	—	85,057	85,057
Accumulated other comprehensive income (loss)	(115)	—	115	—
Total members' equity	<u>27,570</u>	<u>49,025</u>	<u>119,028</u>	<u>195,623</u>
Total liabilities and members' equity	<u>\$ 273,726</u>	<u>\$ 424,121</u>	<u>\$ 583,818</u>	<u>\$ 1,281,665</u>

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

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

NOTE 12 — SUBSEQUENT EVENTS

The District has evaluated subsequent events and except for the two events discussed below, has determined there are no other subsequent events requiring disclosure through August 9, 2011, which is the date the financial statements were issued.

Subsequent to second quarter end, the District was informed of a failure to perform by a proposed purchaser in proceedings involving a borrower in bankruptcy. The District recognized an estimate of loss in its provisions at June 30, 2011, related to this borrower. Based on the latest estimates, the District, as a result of this action, could possibly incur additional loss of between \$8.5 and \$12.5 million. The District does not consider this amount to be material to the financial statements for the period ended June 30, 2011, and will continue to evaluate as events approach resolution.

On August 5, 2011, one of the NRSROs downgraded the long-term credit rating of U.S. Government (sovereign) debt one level to AA+ from the highest rating of AAA, while leaving the short-term credit rating unchanged. As a consequence of this downgrade action, on August 8, 2011, the same NRSRO downgraded the long-term credit rating of System debt due to the implied link between the credit rating of the System and the U.S. Government given the System's status as a GSE. The short-term credit rating of the System was not changed. A reduction in the System's credit rating may increase borrowing costs and may limit access to the capital markets, reducing the flexibility to issue debt across the full spectrum of the yield curve. See the *U.S. Fiscal Situation and Credit Rating Impact on Funding* section of Management's Discussion and Analysis for further information.