First South Farm Credit, ACA

FIRST QUARTER 2011

TABLE OF CONTENTS

CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2011 quarterly report of First South Farm Credit, ACA, 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.

William T. Kyser, II
Chairman of the Board

Stephen L. Rochelle
Chief Executive Officer

Bryan Applewhite
Chief Financial Officer

May 9, 2011

First South Farm Credit, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the 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 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 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 Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 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 Association concluded that as of March 31, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2011.

Stephen L. Rochelle
Chief Executive Officer

Bryan Applewhite
Chief Financial Officer

May 9, 2011

First South Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of *First South Farm Credit, ACA* (Association) for the period ended March 31, 2011. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2010 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including poultry, cotton, livestock and forestry. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

Comparison of March 31, 2011 to December 31, 2010

The gross loan volume of the Association as of March 31, 2011, was $1,189,937, an increase of $6,368, as compared to $1,183,569 at December 31, 2010. Net loans outstanding at March 31, 2011, were $1,182,503 as compared to $1,176,373 at December 31, 2010. Net loans accounted for 90.95 percent of total assets at March 31, 2011, as compared to 89.55 percent of total assets at December 31, 2010. The increase in loan volume is primarily attributable to seasonal lending within the portfolio.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased to $12,377 at March 31, 2011 from $14,550 at December 31, 2010, a decrease of $2,173.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2011, was $7,434 compared to $7,196 at December 31, 2010, and was considered by management to be adequate to cover possible losses.

Comparison of March 31, 2011 to March 31, 2010

As stated previously, as of March 31, 2011, gross loan volume of the Association was $1,189,937 and net loans outstanding were $1,182,503. This represents an increase of $29,911 in gross loan volume as compared to $1,160,026 at March 31, 2010, and represents an increase of $30,297 in net loans outstanding as compared to $1,152,206 at March 31, 2010. Net loans decreased as a percentage of total assets slightly to the aforementioned 90.95 percent of total assets at March 31, 2011, from 91.10 percent of total assets at March 31, 2010. The increase in loan volume is primarily attributable to overall continued growth in the portfolio.

Nonaccrual loans decreased from $12,616 at March 31, 2010, to $12,377 at March 31, 2011, a decrease of $239.

The allowance for loan losses at March 31, 2011, was $7,434 compared to $7,820 at March 31, 2010, a decrease of $386.

RESULTS OF OPERATIONS

For the three months ended March 31, 2011

Net income for the three months ended March 31, 2011, totaled $6,380, as compared to $5,175 for the same period in 2010. The increase in net income relates to various factors including improved net interest margins and a decrease in the provision for loan losses over the same period. Net interest income increased $738 for the three months ended March 31, 2011, as compared to the same period in 2010. The increase in net interest income was primarily the result of improved net interest margins within the portfolio as stated above.

Noninterest income for the three months ended March 31, 2011 totaled $4,867, as compared to $6,405 for the same period of 2010, a decrease of $1,538. The decrease is primarily the result of an insurance fund refund received in the first quarter of 2010 of $1,211, a reduction in loan fees of $176, decreased equity in earnings of other Farm Credit institutions of $100, along with a decrease in gains in other property owned of $52.

Noninterest expense for the three months ended March 31, 2011 increased $514 compared to the same period of 2010. The primary reason for the increase in noninterest expense was an increase in salaries and employee benefits of $284, an increase in occupancy and equipment of $41, and an increase in other operating expenses of $278, partially offset by a decrease in the Insurance Fund premium of $89. The Association recorded a provision for loan loss of $346 for the three months ended March 31, 2011, compared to $2,940 for the same period in 2010. The Association recorded a provision for income taxes of $86 for the three months ended March 31, 2011, compared to a provision of $11 for the same period of 2010.

INSURANCE FUND REFUND

During the first quarter of 2010, the Association recorded $1,211 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The amount is reflected in Noninterest Income on the Consolidated Statements of Income. 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.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2011 was $1,003,608 as compared to $1,022,532 at December 31, 2010, a decrease of $18,924, and was $986,039 at March 31, 2010, an increase of $17,569 as compared to March 31, 2011. The decrease in notes payable from December 31, 2010 to March 31, 2011 is related to routine recording of earnings of the Association.

CAPITAL RESOURCES

Total members' equity at March 31, 2011, March 31, 2010 and December 31, 2010 was $248,328, $236,044 and $246,385, respectively. The increase from March 31, 2010 to March 31, 2011 is primarily attributable to the improved earnings of the Association reflected in allocated and unallocated retained earnings with a net increase of $12,344. The increase of $1,943 in total members' equity from December 31, 2010 to March 31, 2011 is mainly attributable to an increase in unallocated retained earnings of $7,084, a decrease in allocated retained earnings of $5,722 related to equity distributions and a decrease in accumulated other comprehensive loss of $368. Total capital stock and participation certificates were $66,378, $65,630 and $66,165 at March 31, 2011, March 31, 2010 and December 31, 2010, respectively.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2011, the Association's total surplus ratio and core surplus ratio were 14.05 percent and 12.84 percent, respectively, and the permanent capital ratio was 15.38 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

Financial Regulatory Reform

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

The Dodd-Frank Act creates new regulators and expands the authority of the Federal Reserve Board over non-bank financial companies previously not subject to its or other bank regulators' direct jurisdiction, particularly those that are important to the U.S. financial system. Nevertheless, the Dodd-Frank Act largely preserves the authority of the Farm

Credit Administration as the System's independent federal regulator by excluding System institutions from being considered a non-bank financial company and providing other exemptions and exclusions from certain of the law's provisions. Also, the rules prohibiting banking entities from engaging in proprietary trading under the Volcker Rule will not apply to the debt securities issued by the System.

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

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

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

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

STOCKHOLDER INVESTMENT

Stockholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst Farm Credit Bank's Quarterly and Annual Reports are on the AgFirst website, *www.agfirst.com*, or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Copies of the Association's Annual and Quarterly reports are also on the Association's website, *www.firstsouthland.com*, or may be obtained upon request free of charge by calling 1-800-955-1722 or writing Bryan Applewhite, First South Farm Credit, ACA, 574 Highland Colony Parkway, Suite 100, Ridgeland, MS 39157. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

First South Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2011	March 31, 2010	December 31, 2010
	(unaudited)	(unaudited)	(audited)
Assets			
Cash	$ 3,333	$ 2,291	$ 5,615
Loans	1,189,937	1,160,026	1,183,569
Less: allowance for loan losses	7,434	7,820	7,196
Net loans	1,182,503	1,152,206	1,176,373
Accrued interest receivable	10,173	10,708	10,839
Investments in other Farm Credit institutions	86,736	85,371	88,105
Premises and equipment, net	6,841	6,547	6,637
Other property owned	4,888	972	4,888
Due from AgFirst Farm Credit Bank	4,005	4,011	19,378
Other assets	1,760	2,624	1,780
Total assets	$ 1,300,239	$ 1,264,730	$ 1,313,615
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 1,003,608	$ 986,039	$ 1,022,532
Accrued interest payable	2,391	2,488	2,395
Patronage refund payable	62	33	7,192
Allocated surplus payable	4,787	—	37
Other liabilities	41,063	40,126	35,074
Total liabilities	1,051,911	1,028,686	1,067,230
Commitments and contingencies			
Members' Equity			
Protected borrower stock	90	92	89
Capital stock and participation certificates	66,288	65,538	66,076
Retained earnings			
Allocated	104,836	98,115	110,558
Unallocated	97,614	91,991	90,530
Accumulated other comprehensive income (loss)	(20,500)	(19,692)	(20,868)
Total members' equity	248,328	236,044	246,385
Total liabilities and members' equity	$ 1,300,239	$ 1,264,730	$ 1,313,615

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

First South Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2011	2010
Interest Income		
Loans	$ 15,826	$ 15,392
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	6,878	7,182
Net interest income	8,948	8,210
Provision for loan losses	346	2,940
Net interest income after provision for loan losses	8,602	5,270
Noninterest Income		
Loan fees	874	1,050
Equity in earnings of other Farm Credit institutions	3,910	4,010
Gains (losses) on other property owned, net	1	53
Insurance Fund refunds	–	1,211
Other noninterest income	82	81
Total noninterest income	4,867	6,405
Noninterest Expense		
Salaries and employee benefits	4,878	4,594
Occupancy and equipment	341	300
Insurance Fund premium	137	226
Other operating expenses	1,647	1,369
Total noninterest expense	7,003	6,489
Income before income taxes	6,466	5,186
Provision for income taxes	86	11
Net income	$ 6,380	$ 5,175

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

First South Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2009	$ 92	$ 65,212	$ 102,957	$ 86,789	$ (20,018)	$ 235,032
Comprehensive income						
Net income				5,175		5,175
Employee benefit plans adjustments					326	326
Total comprehensive income						5,501
Capital stock/participation certificates issued/(retired), net		326				326
Retained earnings retired			(4,706)			(4,706)
Patronage distribution adjustment			(136)	27		(109)
Balance at March 31, 2010	$ 92	$ 65,538	$ 98,115	$ 91,991	$ (19,692)	$ 236,044
Balance at December 31, 2010	$ 89	$ 66,076	$ 110,558	$ 90,530	$ (20,868)	$ 246,385
Comprehensive income						
Net income				6,380		6,380
Employee benefit plans adjustments					368	368
Total comprehensive income						6,748
Protected borrower equity retired	1					1
Capital stock/participation certificates issued/(retired), net		212				212
Retained earnings retired			(4,778)			(4,778)
Patronage distribution adjustment			(944)	704		(240)
Balance at March 31, 2011	$ 90	$ 66,288	$ 104,836	$ 97,614	$ (20,500)	$ 248,328

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

Notes to the Consolidated Financial Statements

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

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

The accompanying financial statements include the accounts of First South Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2010, are contained in the 2010 Annual Report to Shareholders. These unaudited first quarter 2011 consolidated financial statements should be read in conjunction with the 2010 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the three months ended March 31, 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 consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2011, the allowance for loan losses is adequate in management's opinion to provide for possible losses on existing loans.

In January 2011, the Financial Accounting Standards Board (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 troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring will be coordinated.

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. For public entities, the guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment of those receivables, an entity should apply the guidance prospectively for the first interim or annual period beginning on or after June 15, 2011. In addition, the delayed TDR disclosures referenced above are also effective for the first interim or annual period beginning on or after June 15, 2011. The impact of adoption of this guidance, if any, is expected to be immaterial to the Association's financial condition and results of operations, but it will result in additional disclosures.

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 Association's financial condition and results of operations but resulted in significant additional disclosures (see Note 2).

Effective January 1, 2010, the Association 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 Association'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 — LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans outstanding as of March 31, 2011 and December 31, 2010, follows:

	March 31, 2011	December 31, 2010
Real estate mortgage	$ 323,544	$ 315,757
Production and intermediate-term	772,874	776,278
Agribusiness		
Loans to cooperatives	9,183	8,873
Processing and marketing	43,384	43,481
Farm-related business	21,618	19,952
Total agribusiness	74,185	72,306
Communication	13,195	13,099
Energy	3,483	3,518
Rural residential real estate	2,656	2,611
Total Loans	$ 1,189,937	$ 1,183,569

The Association 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 the changes in the principal balance of participations purchased and sold for the quarter ended March 31, 2011:

	Beginning Balance at December 31, 2010							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,983	$ 72,370	$ –	$ –	$ 74,340	$ 290	$ 84,323	$ 72,660
Production and intermediate-term	10,156	196,701	6,751	–	29,900	–	46,807	196,701
Agribusiness								
Loans to cooperatives	268	16,145	18,062	–	4,329	–	22,659	16,145
Processing and marketing	16,425	5,569	3,817	–	12,343	–	32,585	5,569
Farm-related business	–	19,169	–	–	24,752	–	24,752	19,169
Total agribusiness	16,693	40,883	21,879	–	41,424	–	79,996	40,883
Communication	13,099	–	–	–	–	–	13,099	–
Energy	3,518	–	–	–	–	–	3,518	–
Rural residential real estate	–	–	–	–	539	–	539	–
Total	$ 53,449	$ 309,954	$ 28,630	$ –	$ 146,203	$ 290	$ 228,282	$ 310,244

	Purchases and sales for the quarter ended March 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	–	–	–	–	–	–	–	–
Agribusiness								
Loans to cooperatives	–	–	–	–	–	–	–	–
Processing and marketing	–	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–	–
Total agribusiness	–	–	–	–	–	–	–	–
Communication	–	–	–	–	–	–	–	–
Energy	–	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–	–
Total	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –

	Other activity for the quarter ended March 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ (2,838)	$ (3,263)	$ –	$ –	$ (1,427)	$ (290)	$ (4,265)	$ (3,553)
Production and intermediate-term	(1,619)	(12,622)	735	–	(2,441)	–	(3,325)	(12,622)
Agribusiness								
Loans to cooperatives	16,283	(2)	(13,736)	–	(171)	–	2,376	(2)
Processing and marketing	3,226	(841)	(197)	–	(250)	–	2,779	(841)
Farm-related business	–	(2,350)	–	961	(1,945)	–	(1,945)	(1,389)
Total agribusiness	19,509	(3,193)	(13,933)	961	(2,366)	–	3,210	(2,232)
Communication	108	–	–	–	–	–	108	–
Energy	(32)	–	–	–	–	–	(32)	–
Rural residential real estate	–	–	–	–	(4)	–	(4)	–
Total	$ 15,128	$ (19,078)	$ (13,198)	$ 961	$ (6,238)	$ (290)	$ (4,308)	$ (18,407)

	Ending balance at March 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 7,145	$ 69,107	$ –	$ –	$ 72,913	$ –	$ 80,058	$ 69,107
Production and intermediate-term	8,537	184,079	7,486	–	27,459	–	43,482	184,079
Agribusiness								
Loans to cooperatives	16,551	16,143	4,326	–	4,158	–	25,035	16,143
Processing and marketing	19,651	4,728	3,620	–	12,093	–	35,364	4,728
Farm-related business	–	16,819	–	961	22,807	–	22,807	17,780
Total agribusiness	36,202	37,690	7,946	961	39,058	–	83,206	38,651
Communication	13,207	–	–	–	–	–	13,207	–
Energy	3,486	–	–	–	–	–	3,486	–
Rural residential real estate	–	–	–	–	535	–	535	–
Total	$ 68,577	$ 290,876	$ 15,432	$ 961	$ 139,965	$ –	$ 223,974	$ 291,837

Purchases and sales represent new participation contracts or major modifications of existing contracts. Other activity may consist of advances on existing participation contracts, payments, chargeoffs, recoveries, and/or classification changes.

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at March 31, 2011 and indicates that approximately 24.46 percent of loans had maturities of one year or less:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 30,744	$ 165,997	$ 126,804	$ 323,545
Production and intermediate-term	186,411	348,271	238,191	772,873
Agribusiness				
Loans to cooperatives	5,586	1,394	2,203	9,183
Processing and marketing	38,218	3,488	1,678	43,384
Farm-related business	12,431	7,766	1,421	21,618
Total agribusiness	56,235	12,648	5,302	74,185
Communication	13,044	151	–	13,195
Energy	3,483	–	–	3,483
Rural residential real estate	1,143	823	690	2,656
Total Loans	$ 291,060	$ 527,890	$ 370,987	$ 1,189,937

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 March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Real estate mortgage:		
Acceptable	87.10%	89.49%
OAEM	3.90	1.46
Substandard/doubtful/loss	9.00	9.05
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	91.46%	90.91%
OAEM	5.41	5.73
Substandard/doubtful/loss	3.13	3.36
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	87.44%	96.63%
OAEM	10.27	–
Substandard/doubtful/loss	2.29	3.37
	100.00%	100.00%
Processing and marketing		
Acceptable	96.57%	96.46%
OAEM	3.43	3.54
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business		
Acceptable	69.89%	81.63%
OAEM	27.54	15.62
Substandard/doubtful/loss	2.57	2.75
	100.00%	100.00%

	March 31, 2011	December 31, 2010
Total agribusiness		
Acceptable	87.62%	92.36%
OAEM	11.34	6.46
Substandard/doubtful/loss	1.04	1.18
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	89.67%	88.94%
OAEM	10.33	10.53
Substandard/doubtful/loss	–	0.53
	100.00%	100.00%
Total Loans:		
Acceptable	90.15%	90.74%
OAEM	5.30	4.57
Substandard/doubtful/loss	4.55	4.69
	100.00%	100.00%

The following table provides an age analysis of past due loans and related accrued interest as of March 31, 2011 and December 31, 2010:

	March 31, 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	$ 1,920	$ 6,632	$ 8,552	$ 317,453	$ 326,005	$ –
Production and intermediate-term	1,660	4,885	6,545	773,563	780,108	–
Agribusiness						
Loans to cooperatives	–	212	212	9,054	9,266	–
Processing and marketing	–	–	–	43,491	43,491	–
Farm-related business	–	–	–	21,856	21,856	–
Total agribusiness	–	212	212	74,401	74,613	–
Communication	–	–	–	13,216	13,216	–
Energy	–	–	–	3,483	3,483	–
Rural residential real estate	–	–	–	2,685	2,685	–
Total	$ 3,580	$ 11,729	$ 15,309	$ 1,184,801	$ 1,200,110	$ –

	December 31, 2010					
	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	$ 7,195	$ 2,748	$ 9,943	$ 308,214	$ 318,157	$ -
Production and intermediate-term	3,240	6,636	9,876	774,642	784,518	-
Agribusiness						-
Loans to cooperatives	-	206	206	8,645	8,851	-
Processing and marketing	-	-	-	43,513	43,513	-
Farm-related business	-	-	-	20,121	20,121	-
Total agribusiness	-	206	206	72,279	72,485	-
Communication	-	-	-	13,109	13,109	-
Energy	-	-	-	3,515	3,515	-
Rural residential real estate	169	-	169	2,455	2,624	-
Total	$ 10,604	$ 9,590	$ 20,194	$ 1,174,214	$ 1,194,408	$ -

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 March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	$ 7,360	$ 7,758
Production and intermediate-term	4,805	6,582
Agribusiness		
Loans to cooperatives	212	210
Processing and marketing	–	–
Total agribusiness	212	210
Total nonaccrual loans	$ 12,377	$ 14,550
Accruing restructured loans:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	–
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Total agribusiness	–	–
Total accruing restructured loans	$ –	$ –
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	–
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Total agribusiness	–	–
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 12,377	$ 14,550
Other property owned	4,888	4,888
Total nonperforming assets	$ 17,265	$ 19,438
Nonaccrual loans as a percentage of total loans	1.04%	1.23%
Nonperforming assets as a percentage of total loans and other property owned	1.44%	1.64%
Nonperforming assets as a percentage of capital	6.95%	7.89%

The following table presents information relating to impaired loans (including accrued interest) at March 31, 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.

	March 31, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	$ 608	$ 6
Past due	11,769	14,544
Total impaired nonaccrual loans	12,377	14,550
Impaired accrual loans:		
Restructured	–	–
90 days or more past due	–	–
Total impaired accrual loans	–	–
Total impaired loans	$ 12,377	$ 14,550

Additional impaired loan information as of March 31, 2011 and December 31, 2010 is as follows:

	March 31, 2011				Quarter Ended March 31, 2011	
	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	$ 5,181	$ 5,362	$ 2,939		$ 5,749	$ 68
Production and intermediate-term	3,945	4,008	1,120		4,377	52
Agribusiness						
Loans to cooperatives	–	–	–		–	–
Farm-related business	–	–	–		–	–
Total agribusiness	–	–	–		–	–
Rural residential real estate	–	–	–		–	–
Total	$ 9,126	$ 9,370	$ 4,059		$ 10,126	$ 120
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$ 2,179	$ 3,159	$ –		$ 2,418	$ 28
Production and intermediate-term	860	4,331	–		954	11
Agribusiness						
Loans to cooperatives	212	165	–		235	3
Farm-related business	–	12	–		–	–
Total agribusiness	212	177	–		235	3
Rural residential real estate	–	67	–		–	–
Total	$ 3,251	$ 7,734	$ –		$ 3,607	$ 42
Total Impaired Loans						
Real estate mortgage	$ 7,360	$ 8,521	$ 2,939		$ 8,167	$ 96
Production and intermediate-term	4,805	8,339	1,120		5,331	63
Agribusiness						
Loans to cooperatives	212	165	–		235	3
Farm-related business	–	12	–		–	–
Total agribusiness	212	177	–		235	3
Rural residential real estate	–	67	–		–	–
Total	$ 12,377	$ 17,104	$ 4,059		$ 13,733	$ 162

	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	$ 5,008	$ 5,143	$ 2,227	$ 5,027	$ 46
Production and intermediate-term	2,359	2,439	950	2,369	22
Agribusiness					
Loans to cooperatives	–	–	–	–	–
Farm-related business	–	–	–	–	–
Total agribusiness	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 7,367	$ 7,582	$ 3,177	$ 7,396	$ 68
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,750	$ 3,661	$ –	$ 2,761	$ 25
Production and intermediate-term	4,223	7,652	–	4,239	39
Agribusiness					
Loans to cooperatives	210	174	–	211	2
Farm-related business	–	13	–	–	–
Total agribusiness	210	187	–	211	2
Rural residential real estate		66	–	–	–
Total	$ 7,183	$ 11,566	$ –	$ 7,211	$ 66
Total Impaired Loans					
Real estate mortgage	$ 7,758	$ 8,804	$ 2,227	$ 7,788	$ 71
Production and intermediate-term	6,582	10,091	950	6,608	61
Agribusiness					
Loans to cooperatives	210	174	–	211	2
Farm-related business	–	13	–	–	–
Total agribusiness	210	187	–	211	2
Rural residential real estate	–	66	–	–	–
Total	$ 14,550	$ 19,148	$ 3,177	$ 14,607	$ 134

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 March 31, 2011 and December 31, 2010.

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans for the quarters ended March 31, 2011 and March 31, 2010:

	Quarter Ended March 31,	
	2011	2010
Interest income which would have been recognized under the original loan terms	$ 472	$ 289
Less: interest income recognized	160	58
Foregone interest income	$ 312	$ 231

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at December 31, 2010	$ 3,501	$ 3,425	$ 232	$ 23	$ 6	$ 9	$ 7,196
Charge-offs	(101)	(9)	–	–	–	–	(110)
Recoveries	–	1	1	–	–	–	2
Provision for loan losses	738	(336)	(48)	(4)	(1)	(3)	346
Balance at March 31, 2011	$ 4,138	$ 3,081	$ 185	$ 19	$ 5	$ 6	$ 7,434
March 31, 2011 allowance ending balance:							
Loans individually evaluated for impairment	$ 2,939	$ 1,120	$ –	$ –	$ –	$ –	$ 4,059
Loans collectively evaluated for impairment	$ 1,199	$ 1,961	$ 185	$ 19	$ 5	$ 6	$ 3,375
Recorded investment in loans outstanding:							
Ending Balance at March 31, 2011	$ 326,005	$ 780,108	$ 74,613	$ 13,216	$ 3,483	$ 2,685	$ 1,200,110
March 31, 2011 recorded investment ending balance:							
Loans individually evaluated for impairment	$ 7,360	$ 4,805	$ 212	$ –	$ –	$ –	$ 12,377
Loans collectively evaluated for impairment	$ 318,645	$ 775,303	$ 74,401	$ 13,216	$ 3,483	$ 2,685	$ 1,187,733

	Real Estate Mortgage		Production and Intermediate-term		Agribusiness		Communication		Energy and Water/Waste Disposal		Rural Residential Real Estate		Total
Allowance for credit losses:													
Balance at December 31, 2009	$	2,225	$	4,195	$	864	$	32	$	9	$	10	$ 7,335
Charge-offs		(2,170)		(5,346)		(162)		–		–		–	(7,678)
Recoveries		5		396		165		–		–		–	566
Provision for loan losses		3,441		4,180		(635)		(9)		(3)		(1)	6,973
Balance at December 31, 2010	$	3,501	$	3,425	$	232	$	23	$	6	$	9	$ 7,196
December 31, 2010 allowance ending balance:													
Loans individually evaluated for impairment	$	2,227	$	950	$	–	$	–	$	–	$	–	$ 3,177
Loans collectively evaluated for impairment	$	1,274	$	2,475	$	232	$	23	$	6	$	9	$ 4,019
Recorded investment in loans outstanding:													
Ending Balance at December 31, 2010	$	318,157	$	784,518	$	72,485	$	13,109	$	3,515	$	2,624	$ 1,194,408
December 31, 2010 recorded investment ending balance:													
Loans individually evaluated for impairment	$	7,758	$	6,582	$	210	$	–	$	–	$	–	$ 14,550
Loans collectively evaluated for impairment	$	310,399	$	777,936	$	72,275	$	13,109	$	3,515	$	2,624	$ 1,179,858

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31, 2011	2010
Pension	$ 746	$ 724
401(k)	84	77
Other postretirement benefits	263	226
Total	$ 1,093	$ 1,027

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 3/31/11	Projected Contributions For Remainder of 2011	Projected Total Contributions 2011
Pension	$ –	$2,606	$2,606
Other postretirement benefits	112	403	515
Total	$ 112	$3,009	$3,121

Contributions in the above table include allocated estimates of funding for a multi-employer plan in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. 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 4 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of standby letters of credit, impaired loans and other property owned.

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

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

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association has no Level 1 assets or liabilities measured at fair value on a recurring basis at March 31, 2011.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at March 31, 2011.

Level 3

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

Level 3 assets at March 31, 2011 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other property owned is classified as a Level 3 asset at March 31, 2011. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at March 31, 2011 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at March 31, 2011 and December 31, 2010 for each of the fair value hierarchy levels:

	March 31, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 405	$ 405
Total Liabilities	$ –	$ –	$ 405	$ 405

	December 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 488	$ 488
Total Liabilities	$ –	$ –	$ 488	$ 488

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2011 and 2010. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first three months of 2011 and 2010.

	Standby Letters Of Credit
Balance at January 1, 2011	$ 488
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases	–
Sales	–
Issuances	–
Settlements	(83)
Transfers in and/or out of level 3	–
Balance at March 31, 2011	$ 405

	Standby Letters Of Credit
Balance at January 1, 2010	$ 586
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	(14)
Transfers in and/or out of level 3	–
Balance at March 31, 2010	$ 572

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

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2011 and December 31, 2010 for each of the fair value hierarchy values are summarized below:

	March 31, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 4,727	$ 4,727	$ (990)
Other property owned	$ –	$ –	$ –	$ –	$ –

	December 31, 2010				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 4,190	$ 4,190	$ (9,430)
Other property owned	$ –	$ –	$ 5,093	$ 5,093	$ (964)

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at March 31, 2011 and December 31, 2010.

Quoted market prices are generally not available for certain System financial instruments, 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.

The estimated fair values of the Association's financial instruments are as follows:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	$ 3,333	$ 3,333	$ 5,615	$ 5,615
Loans, net of allowance	$ 1,192,676	$ 1,205,726	$ 1,187,212	$ 1,196,317
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 1,005,999	$ 1,016,827	$ 1,024,927	$ 1,036,245

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

A. **Cash:** The carrying value is primarily a reasonable estimate of fair value.

B. **Loans:** Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Discount rates are based on the Bank's loan rates as well as management estimates.

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

   Fair value of loans in a nonaccrual status is estimated to be the carrying amount of the loan less specific reserves.

The book value of accrued interest, which has been included in the carrying amount of loans, approximates its fair value.

C. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 9.99 percent of the issued stock of the Bank as of March 31, 2011 net of any reciprocal investment. As of that date, the Bank's assets totaled $29.2 billion and shareholders' equity totaled $2.0 billion. The Bank's earnings were $103 million during the first three months of 2011.

   In addition, the Association has an investment of $34 related to other Farm Credit institutions.

D. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

   The book value of accrued interest, which has been included in the carrying amount of notes payable, approximates its fair value.

E. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

NOTE 6 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through May 9, 2011, which is the date the financial statements were issued.