First South Farm Credit, ACA

SECOND QUARTER 2011

TABLE OF CONTENTS

CERTIFICATION

The undersigned certify that we have reviewed the June 30, 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

August 8, 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 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 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 Association determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2011.

Stephen L. Rochelle
Chief Executive Officer

Bryan Applewhite
Chief Financial Officer

August 8, 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 June 30, 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 June 30, 2011 to December 31, 2010

The gross loan volume of the Association as of June 30, 2011, was $1,305,538, an increase of $121,969, as compared to $1,183,569 at December 31, 2010. Net loans outstanding at June 30, 2011, were $1,297,670 as compared to $1,176,373 at December 31, 2010. Net loans accounted for 91.51 percent of total assets at June 30, 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 $12,696 at June 30, 2011 from $14,550 at December 31, 2010, a decrease of $1,854.

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 June 30, 2011, was $7,868 compared to $7,196 at December 31, 2010, and was considered by management to be adequate to cover possible losses.

Comparison of June 30, 2011 to June 30, 2010

As stated previously, as of June 30, 2011, gross loan volume of the Association was $1,305,538 and net loans outstanding were $1,297,670. This represents an increase of $83,682 in gross loan volume as compared to $1,221,856 at June 30, 2010, and represents an increase of $84,733 in net loans outstanding as compared to $1,212,973 at June 30, 2010. Net loans increased as a percentage of total assets slightly to the aforementioned 91.51 percent of total assets at June 30, 2011, from 90.69 percent of total assets at June 30, 2010. The increase in loan volume is primarily attributable to overall continued growth in the portfolio.

Nonaccrual loans decreased from $12,921 at June 30, 2010, to $12,696 at June 30, 2011, a decrease of $225.

The allowance for loan losses at June 30, 2011, was $7,868 compared to $8,919 at June 30, 2010, a decrease of $1,051.

RESULTS OF OPERATIONS

For the three months ended June 30, 2011

Net income for the three months ended June 30, 2011, totaled $7,786, as compared to $5,296 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 $1,045 for the three months ended June 30, 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 June 30, 2011 totaled $5,992, as compared to $5,575 for the same period of 2010, an increase of $417. The increase is primarily the result of increased fees for financially related services of $226, and an increase in gains of other property owned of $275. This income was partially offset by a decrease $67 in equity in earnings of other Farm Credit institutions.

Noninterest expense for the three months ended June 30, 2011 increased $332 compared to the same period of 2010. The increase is primarily attributable to an increase in salaries and employee benefits of $151, an increase in occupancy and equipment of $7, an increase in other operating expenses of $32, and an increase in the Insurance Fund premium of $142. The Association recorded a provision for loan loss of $892 for the three months ended June 30, 2011, compared to $2,270 for the same period in 2010. The Association recorded a provision for income taxes of $105 for the three months ended June 30, 2011, compared to a provision of $87 for the same period of 2010.

For the six months ended June 30, 2011

Net income for the six months ended June 30, 2011, totaled $14,166, as compared to $10,471 for the same period in 2010. This increase in net income relates to improved net interest margins, increased Bank patronage and an overall reduction in Insurance Fund costs. Net interest income for the second quarter has increased $1,783 or 10.63 percent, as compared to the same period in 2010. The increase in net interest income was primarily the result of increased margins along with modest growth within the portfolio.

Noninterest income for the six months ended June 30, 2011, totaled $10,859, as compared to $11,980 for the same period of 2010, a decrease of $1,121. The decrease is primarily the result of a decrease in loan fees of $196, a decrease in equity in earnings of other Farm Credit institutions of $167 and no Insurance Fund refund as compared to the $1,211 received for the period last year. This decrease was partially offset by increases in fees for financially related services of $226, an increase in gains on other property owned of $223, and an increase in gains on sales of premises and equipment of $20.

Noninterest expense for the six months ended June 30, 2011, increased $846 compared to the same period of 2010. The reason for the increase in noninterest expense was an increase in salaries and employee benefits of $435, an increase of $48 in occupancy and equipment, an increase of $53 in the Insurance Fund premium, and an increase in other operating expenses of $310.

The Association recorded a provision for loan losses of $1,238 for the six months ended June 30, 2011, compared to a provision of $5,210 for the same period in 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 June 30, 2011 was $1,123,675 as compared to $1,022,532 at December 31, 2010, an increase of $101,143, and was $1,061,522 at June 30, 2010, an increase of $62,153 as compared to June 30, 2011. The increase in notes payable from December 31, 2010 to June 30, 2011 is related primarily to continued growth in the overall loan portfolio.

CAPITAL RESOURCES

Total members' equity at June 30, 2011, June 30, 2010 and December 31, 2010 was $256,623, $241,760 and $246,385, respectively. The increase from June 30, 2010 to June 30, 2011 is primarily attributable to the improved earnings of the Association reflected in allocated and unallocated retained earnings with a net increase of $14,901. The increase of $10,238 in total members' equity from December 31, 2010 to June 30, 2011 is mainly attributable to an increase in unallocated retained earnings of $14,872, a decrease in allocated retained earnings of $5,733 related to equity distributions and a decrease in accumulated other comprehensive loss of $737. Total capital stock and participation certificates were $66,527, $65,799 and $66,165 at June 30, 2011, June 30, 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 June 30, 2011, the Association's total surplus ratio and core surplus ratio were 13.15 percent and 12.36 percent, respectively, and the permanent capital ratio was 14.41 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 sought comments to facilitate the development of this regulatory capital framework, this 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 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)	June 30, 2011	June 30, 2010	December 31, 2010
	(unaudited)	*(unaudited)*	*(audited)*
Assets			
Cash	$ 1,523	$ 1,170	$ 5,615
Loans	1,305,538	1,221,856	1,183,569
Less: allowance for loan losses	7,868	8,919	7,196
Net loans	1,297,670	1,212,937	1,176,373
Accrued interest receivable	12,196	11,410	10,839
Investments in other Farm Credit institutions	85,591	90,061	88,105
Premises and equipment, net	7,092	6,486	6,637
Other property owned	4,378	5,496	4,888
Due from AgFirst Farm Credit Bank	8,021	8,162	19,378
Other assets	1,617	1,753	1,780
Total assets	$ 1,418,088	$ 1,337,475	$ 1,313,615
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 1,123,675	$ 1,061,522	$ 1,022,532
Accrued interest payable	2,479	2,475	2,395
Patronage refund payable	5	5	7,192
Allocated surplus payable	155	127	37
Other liabilities	35,151	31,586	35,074
Total liabilities	1,161,465	1,095,715	1,067,230
Commitments and contingencies			
Members' Equity			
Protected borrower stock	90	91	89
Capital stock and participation certificates	66,437	65,708	66,076
Retained earnings			
Allocated	104,825	98,061	110,558
Unallocated	105,402	97,265	90,530
Accumulated other comprehensive income (loss)	(20,131)	(19,365)	(20,868)
Total members' equity	256,623	241,760	246,385
Total liabilities and members' equity	$ 1,418,088	$ 1,337,475	$ 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 June 30, 2011	For the three months ended June 30, 2010	For the six months ended June 30, 2011	For the six months ended June 30, 2010
Interest Income				
Loans	$ 17,000	$ 16,007	$ 32,826	$ 31,399
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	7,392	7,444	14,270	14,626
Net interest income	9,608	8,563	18,556	16,773
Provision for loan losses	892	2,270	1,238	5,210
Net interest income after provision for loan losses	8,716	6,293	17,318	11,563
Noninterest Income				
Loan fees	621	641	1,495	1,691
Fees for financially related services	257	31	257	31
Equity in earnings of other Farm Credit institutions	4,801	4,868	8,711	8,878
Gains (losses) on other property owned, net	293	18	294	71
Gains (losses) on sales of premises and equipment, net	3	(6)	3	(17)
Insurance Fund refunds	—	—	—	1,211
Other noninterest income	17	23	99	115
Total noninterest income	5,992	5,575	10,859	11,980
Noninterest Expense				
Salaries and employee benefits	4,805	4,654	9,683	9,248
Occupancy and equipment	320	313	661	613
Insurance Fund premium	151	9	288	235
Other operating expenses	1,541	1,509	3,188	2,878
Total noninterest expense	6,817	6,485	13,820	12,974
Income before income taxes	7,891	5,383	14,357	10,569
Provision for income taxes	105	87	191	98
Net income	$ 7,786	$ 5,296	$ 14,166	$ 10,471

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				10,471		10,471
Employee benefit plans adjustments					653	653
Total comprehensive income						11,124
Protected borrower equity retired	(1)					(1)
Capital stock/participation certificates issued/(retired), net		496				496
Retained earnings retired			(4,791)			(4,791)
Patronage distribution adjustment			(105)	5		(100)
Balance at June 30, 2010	$ 91	$ 65,708	$ 98,061	$ 97,265	$ (19,365)	$ 241,760
Balance at December 31, 2010	$ 89	$ 66,076	$ 110,558	$ 90,530	$ (20,868)	$ 246,385
Comprehensive income						
Net income				14,166		14,166
Employee benefit plans adjustments					737	737
Total comprehensive income						14,903
Protected borrower equity retired	1					1
Capital stock/participation certificates issued/(retired), net		361				361
Retained earnings retired			(4,789)			(4,789)
Patronage distribution adjustment			(944)	706		(238)
Balance at June 30, 2011	$ 90	$ 66,437	$ 104,825	$ 105,402	$ (20,131)	$ 256,623

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

First South Farm Credit, ACA

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 second 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 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 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 June 30, 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 (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

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 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 nonpublic entities, the guidance is effective for the first interim or annual period beginning on or after December 15, 2012, 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 December 15, 2012. 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 June 30, 2011 and December 31, 2010, follows:

	June 30, 2011	December 31, 2010
Real estate mortgage	$ 325,795	$ 315,757
Production and intermediate-term	896,456	776,278
Agribusiness		
Loans to cooperatives	5,150	8,873
Processing and marketing	40,272	43,481
Farm-related business	18,359	19,952
Total agribusiness	63,781	72,306
Communication	13,175	13,099
Energy	3,451	3,518
Rural residential real estate	2,880	2,611
Total Loans	$ 1,305,538	$ 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 participations purchased and sold balances at June 30, 2011 and December 31, 2010:

June 30, 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	$ 4,322	$ 65,316	$ –	$ –	$ 71,689	$ –	$ 76,011	$ 65,316
Production and intermediate-term	14,822	181,899	7,516	9,189	25,320	–	47,658	191,088
Agribusiness								
Loans to cooperatives	15,127	16,135	817	–	4,109	–	20,053	16,135
Processing and marketing	13,717	4,163	3,319	–	15,896	–	32,932	4,163
Farm-related business	–	764	–	–	453	941	453	1,705
Total agribusiness	28,844	21,062	4,136	–	20,458	941	53,438	22,003
Communication	13,185	–	–	–	–	–	13,185	–
Energy	3,454	–	–	–	–	–	3,454	–
Rural residential real estate	–	–	–	–	531	–	531	–
Total	$ 64,627	$ 268,277	$ 11,652	$ 9,189	$ 117,998	941	$ 194,277	$ 278,407

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

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 June 30, 2011 and indicates that approximately 28.82 percent of loans had maturities of less than one year:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 34,776	$ 162,417	$ 128,602	$ 325,795
Production and intermediate-term	277,204	365,342	253,910	896,456
Agribusiness				
Loans to cooperatives	943	2,288	1,919	5,150
Processing and marketing	35,585	3,064	1,623	40,272
Farm-related business	9,982	7,119	1,258	18,359
Total agribusiness	46,510	12,471	4,800	63,781
Communication	13,015	160	–	13,175
Energy	3,451	–	–	3,451
Rural residential real estate	1,244	839	797	2,880
Total Loans	$ 376,200	$ 541,229	$ 388,109	$ 1,305,538

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
Real estate mortgage:		
Acceptable	88.35%	89.49%
OAEM	2.33	1.46
Substandard/doubtful/loss	9.32	9.05
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	92.27%	90.91%
OAEM	5.03	5.73
Substandard/doubtful/loss	2.70	3.36
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	100.00%	96.63%
OAEM	–	–
Substandard/doubtful/loss	–	3.37
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	96.46%
OAEM	–	3.54
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	81.74%	81.63%
OAEM	15.16	15.62
Substandard/doubtful/loss	3.10	2.75
	100.00%	100.00%

	June 30, 2011	December 31, 2010
Total agribusiness:		
Acceptable	94.73%	92.36%
OAEM	4.38	6.46
Substandard/doubtful/loss	0.89	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	90.38%	88.94%
OAEM	9.62	10.53
Substandard/doubtful/loss	–	0.53
	100.00%	100.00%
Total Loans:		
Acceptable	91.51%	90.74%
OAEM	4.27	4.57
Substandard/doubtful/loss	4.22	4.69
	100.00%	100.00%

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

	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	$ 1,930	$ 6,199	$ 8,129	$ 320,658	$ 328,787	$ –
Production and intermediate-term	1,877	6,105	7,981	897,357	905,339	–
Agribusiness						
Loans to cooperatives	–	–	–	5,186	5,186	–
Processing and marketing	–	–	–	40,373	40,373	–
Farm-related business	573	–	573	17,909	18,482	–
Total agribusiness	573	–	573	63,469	64,041	–
Communication	–	–	–	13,179	13,179	–
Energy	–	–	–	–	–	–
Rural residential real estate	–	–	–	2,921	2,921	–
Total	$ 4,379	$ 12,304	$ 16,683	$ 1,301,052	$ 1,317,734	$ –

	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 June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	$ 6,353	$ 7,758
Production and intermediate-term	6,343	6,582
Agribusiness		
Loans to cooperatives	–	210
Processing and marketing	–	–
Total agribusiness	–	210
Total nonaccrual loans	$ 12,696	$ 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	$ 12,696	$ 14,550
Other property owned	4,378	4,888
Total nonperforming assets	$ 17,074	$ 19,438
Nonaccrual loans as a percentage of total loans	0.97%	1.23%
Nonperforming assets as a percentage of total loans and other property owned	1.30%	1.64%
Nonperforming assets as a percentage of capital	6.65%	7.89%

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.

	June 30, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	$ 167	$ 6
Past due	12,529	14,544
Total impaired nonaccrual loans	12,696	14,550
Impaired accrual loans:		
Restructured	–	–
90 days or more past due	–	–
Total impaired accrual loans	–	–
Total impaired loans	$ 12,696	$ 14,550

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

	June 30, 2011			Quarter Ended June 30, 2011		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	$ 4,158	$ 4,410	$ 2,784	$ 4,089	$ 6	$ 4,343	$ 59
Production and intermediate-term	5,514	5,558	1,698	5,422	7	5,760	78
Agribusiness							
Loans to cooperatives	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–
Total agribusiness	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 9,672	$ 9,968	$ 4,482	$ 9,511	$ 13	$ 10,103	$ 137
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 2,195	$ 3,780	$ –	$ 2,158	$ 3	$ 2,293	$ 31
Production and intermediate-term	829	4,428	–	815	1	865	11
Agribusiness							
Loans to cooperatives	–	165	–	–	–	–	–
Farm-related business	–	11	–	–	–	–	–
Total agribusiness	–	176	–	–	–	–	–
Rural residential real estate	–	67	–	–	–	–	–
Total	$ 3,024	$ 8,451	$ –	$ 2,973	$ 4	$ 3,158	$ 42
Total Impaired Loans							
Real estate mortgage	$ 6,353	$ 8,190	$ 2,784	$ 6,247	$ 9	$ 6,636	$ 90
Production and intermediate-term	6,343	9,986	1,698	6,237	8	6,625	89
Agribusiness							
Loans to cooperatives	–	165	–	–	–	–	–
Farm-related business	–	11	–	–	–	–	–
Total agribusiness	–	176	–	–	–	–	–
Rural residential real estate	–	67	–	–	–	–	–
Total	$ 12,696	$ 18,419	$ 4,482	$ 12,484	$ 17	$ 13,261	$ 179

	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 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 is as follows:

	June 30, 2011						
	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	(334)	(52)	(215)	–	–	–	(601)
Recoveries	–	33	2	–	–	–	35
Provision for loan losses	770	378	100	(6)	(1)	(3)	1,238
Balance at June 30, 2011	$ 3,937	$ 3,784	$ 119	$ 17	$ 5	$ 6	$ 7,868
June 30, 2011 allowance ending balance:							
Loans individually evaluated for impairment	$ 2,784	$ 1,698	$ –	$ –	$ –	$ –	$ 4,482
Loans collectively evaluated for impairment	$ 1,153	$ 2,086	$ 119	$ 17	$ 5	$ 6	$ 3,386
Recorded investment in loans outstanding:							
Ending Balance at June 30, 2011	$ 328,787	$ 905,338	$ 64,041	$ 13,179	$ 3,468	$ 2,921	$ 1,317,734
June 30, 2011 recorded investment ending balance:							
Loans individually evaluated for impairment	$ 6,353	$ 6,343	$ –	$ –	$ –	$ –	$ 12,696
Loans collectively evaluated for impairment	$ 322,434	$ 898,995	$ 64,041	$ 13,179	$ 3,468	$ 2,921	$ 1,305,038

	December 31, 2010						
	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 six months ended June 30, 2011	For the six months ended June 30, 2010
Pension	$ 1,492	$ 1,447
401(k)	176	164
Other postretirement benefits	526	451
Total	$ 2,194	$ 2,062

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

	Actual YTD Through 6/30/11	Projected Contributions For Remainder of 2011	Projected Total Contributions 2011
Pension	$ -	$2,606	$2,606
Other postretirement benefits	222	286	508
Total	$ 222	$2,892	$3,114

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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 2011 and December 31, 2010 for each of the fair value hierarchy levels:

	June 30, 2011							
	Level 1		Level 2		Level 3		Total Fair Value	
Liabilities:								
Standby letters of credit	$	–	$	–	$	431	$	431
Total Liabilities	$	–	$	–	$	431	$	431

	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 six months ended June 30, 2011 and 2010. The Association 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.

	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	(57)
Transfers in and/or out of level 3	–
Balance at June 30, 2011	$ 431

	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	24
Transfers in and/or out of level 3	–
Balance at June 30, 2010	$ 610

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:

	June 30, 2011									
	Level 1		Level 2		Level 3		Total Fair Value		YTD Total Gains (Losses)	
Assets:										
Impaired loans	$	–	$	–	$	5,174	$	5,174	$	(1,871)
Other property owned	$	–	$	–	$	185	$	185	$	299

	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 June 30, 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:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	$ 1,523	$ 1,523	$ 5,615	$ 5,615
Loans, net of allowance	$ 1,309,866	$ 1,326,097	$ 1,187,212	$ 1,196,317
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 1,126,154	$ 1,139,207	$ 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 9.75 percent of the issued stock of the Bank as of June 30, 2011 net of any reciprocal investment. As of that date, the Bank's assets totaled $30.1 billion and shareholders' equity totaled $2.1 billion. The Bank's earnings were $208 million during the first six 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 August 8, 2011, which is the date the financial statements were issued.