2011

FIRST QUARTER

U.S. AGBANK DISTRICT

U.S. AgBank District

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MANAGEMENT'S DISCUSSION AND ANALYSIS

U.S. AgBank District

(Dollars in thousands, except as noted)

The following discussion summarizes the combined financial position and results of operations of the U.S. AgBank District (District) for the three months ended March 31, 2011. Comparisons with prior year periods are included. The affiliated Agricultural Credit Associations (ACAs), Federal Land Credit Associations (FLCAs), and Production Credit Associations (PCAs) are collectively known as "Associations."

We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact, the financial condition and results of operations of the District. You should read these comments along with the accompanying financial statements and footnotes, and our 2010 Annual Report to Shareholders, which can be found on U.S. AgBank's (AgBank) website at www.usagbank.com.

CURRENT MARKET CONDITIONS

For many years, agriculture has experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values, and, to a lesser extent, government support and multi-peril insurance programs. Because of this overall prosperity, our financial results have been positively influenced. Production agriculture, however, is a cyclical business that is heavily influenced by commodity prices. In 2009 and 2010, certain agricultural sectors experienced significant stress, which negatively impacted credit quality measures. Adversely affected have been dairy, fed cattle, timber, and nurseries, while grain producers have been positively affected. While overall conditions were satisfactory in the first quarter of 2011, dairy continues to reflect some stress, timber remains hampered by the prolonged problems in the housing markets, and high feed costs are stressing margins in the meat protein complexes, especially poultry. The negative impact to us from these less favorable conditions is somewhat lessened by geographic and commodity diversification across the District and the generally strong financial condition of our agricultural borrowers. Some borrowers who are reliant on off-farm income sources have been adversely impacted due to the weakened general economy.

Economic events created substantial turmoil in the financial sector and uncertainty in the credit markets in 2008 and 2009. Lingering market illiquidity in 2010 combined with the uncertainty of housing markets in some key states into 2011 have continued to impact the fair value and credit ratings of certain securities in our investment portfolio. The rating downgrades on these investment securities have negatively affected AgBank's regulatory capital ratios. However, we have absorbed these stresses and our overall capital, earnings and liquidity positions remain very sound.

DISTRICT HIGHLIGHTS

Net income was $133.7 million during the first quarter of 2011 and $142.8 million during the first quarter of 2010. Total assets at March 31, 2011 decreased 2.4% to $29.59 billion compared with total assets of $30.33 billion at December 31, 2010. As of March 31, 2011, shareholders' equity increased $122.5 million to $5.29 billion, compared with $5.17 billion at December 31, 2010.

As discussed in our 2010 Annual Report, in December 2010, each Board of Directors of AgBank and CoBank, ACB approved a Letter of Intent to pursue a merger. In March 2011, following unanimous votes by the boards of both banks, a merger application was submitted to the Farm Credit Administration (FCA). On April 25, 2011, the FCA determined the merger application to be complete, triggering a 60-day statutory time period to act on the application. An issuance of preliminary approval by the FCA would enable AgBank and CoBank to conduct stockholder votes on the merger this summer. If the merger is approved, the banks are targeting an effective date of October 1, 2011.

The merged bank would continue to do business under the CoBank name and be headquartered just outside Denver, Colorado, but it would maintain AgBank's presence and operation in Wichita and Sacramento. Robert B. Engel, CoBank's president and chief executive officer, would be the chief executive of the combined entity. CoBank had total assets of $69.3 billion and capital of $4.5 billion at March 31, 2011.

American AgCredit, ACA and Farm Credit of the Mountain Plains, ACA have entered into a Letter of Intent to merge with a date to be mutually agreed upon during the second quarter of 2012.

RESULTS OF OPERATIONS

The following information and the accompanying combined financial statements address our financial performance in more detail. The year-to-date March 31, 2011 results of operations are not necessarily indicative of the results to be expected for the entire year.

Our net income for the first quarter of 2011 was $133.7 million, a decrease of $9.1 million, or 6.4%, as compared with net income of $142.8 million for the first quarter of 2010. The decrease in 2011 as compared with the same period in 2010 is due largely to a significant decrease in noninterest income.

The following table presents the changes in the significant components of net income.

	Q1 2011 versus Q1 2010
Net income, prior period	$ 142,798
Increase/(Decrease) to net income from changes in:	
Net interest income	11,334
Provision for loan losses	11,896
Noninterest income	(27,640)
Noninterest expense	(5,065)
Provision for income taxes	401
Total decrease in net income	(9,074)
Net income, current period	$ 133,724

Net Interest Income

During the three months ended March 31, 2011, we recorded net interest income of $201.8 million, an increase of $11.3 million from $190.5 million for the three months ended March 31, 2010. This was a result of the increase in interest rate spread during the first three months of 2011 of 17 basis points to 2.51%, as compared with interest rate spread of 2.34% during the first three months of 2010. Associations have improved spread when repricing or refinancing loans and in addition, interest expense has been positively impacted due to called debt in 2010 being replaced at a lower cost and the issuance of additional floating rate debt. Offsetting the increase in spread was a reduction in discount accretion recognized on agency investments in interest income as paydowns on those investments have slowed in 2011. The positive impact of interest rate spread on net interest margin was partially offset by lower market interest rates that reduced our earnings on capital by 3 basis points.

Provision for Loan Losses/(Loan Loss Reversals)

We recorded net provision for loan losses across the District totaling $6.5 million during the first quarter of 2011 compared with $18.4 million for the same period in 2010. Fifteen Associations and AgBank recorded provision for loan losses of $8.1 million during the first three months of 2011 with nine Associations recording loan loss reversals of $1.6 million. The provisions for loan losses during the first quarter of 2011 were primarily due to charge-offs associated with a nursery loan and a dairy loan during the quarter and credit deterioration in specific loans across the District. Provisions for loan losses recorded during the first quarter of 2010 were primarily due to an increase in specific reserves with regard to certain downgraded loans and credit deterioration in those agricultural sectors that continued to be impacted by volatility in commodity prices, such as dairy and fed cattle, as well as those sectors impacted by the overall downturn in the general economy, including the timber, wine and grapes, and nursery industries.

Noninterest Income

In the first quarter of 2011, we recorded noninterest income of $25.3 million, compared with $52.9 million for the first quarter of 2010. The net decrease of $27.6 million was largely due to distributions of $29.8 million from the Farm Credit System Insurance Corporation in the first quarter of 2010 representing our District's portion of the excess amount in the System's insurance fund above the 2% secure base amount. Loan and prepayment fee income increased $1.6 million primarily due to reinvestment fees charged as a result of prepayments and payoffs.

Noninterest Expense

Noninterest expense for the first quarter ended March 31, 2011 was $86.4 million, an increase of $5.0 million, or 6.2%, from $81.4 million for the three months ended March 31, 2010. During the first quarter of 2011, subsequent impairments of $4.3 million were recognized for the credit-related component of other-than-temporary impairments on certain non-agency mortgage-backed investment securities, whereas no investment security impairments were recognized in the first three months of 2010.

Total salaries and employee benefits increased $695 thousand for the first quarter of 2011 compared with the first quarter of 2010 due to annual salary adjustments, additional staff, and incentive programs. Merger implementation costs of $767 thousand were recorded in the first quarter of 2011 related to the AgBank merger with CoBank. These expenses were primarily related to retention incentives and attorney fees. Losses on other property owned increased $1.2 million to $2.1 million for the first quarter of 2011 due to increased valuation losses and operating expenses as a result of the substantial increase in acquired properties since the first quarter of 2010.

Insurance fund premiums paid to the Farm Credit System Insurance Corporation decreased $2.1 million compared with the same period in 2010. Premium rates were 6 basis points on System debt during the first quarter of 2011 compared with 10 basis points in the first quarter of 2010.

During the three months ended March 31, 2011, we recognized accelerated debt concession expense of $506 thousand on debt that was called and refinanced at lower rates. Calling and replacing debt will result in lower interest expense in the future. We recognized accelerated debt concession expense of $2.3 million in the first three months of 2010.

Provision for/(Benefit from) Income Taxes

Provision for income taxes was $462 thousand for the three months ended March 31, 2011, compared with $863 thousand for the three months ended March 31, 2010.

CAPITAL RESOURCES

Shareholders' equity at March 31, 2011 totaled $5.29 billion, a net increase of $122.5 million, compared with $5.17 billion at December 31, 2010. This increase was the result of net income of $133.7 million and net stock issuances of $3.6 million, offset by patronage distributions and preferred stock dividends of $9.0 million and an increase in accumulated other comprehensive loss of $5.8 million.

Accumulated other comprehensive losses related to available-for-sale investments, derivatives, and defined benefit retirement plans totaled $343.1 million at March 31, 2011, an increase of $5.8 million compared with year-end 2010. Unrealized loss on investments, the primary component of accumulated other comprehensive losses, increased by $5.7 million to $196.8 million due mostly to the increase in market interest rates, offset by the impairments recorded in the first quarter of 2011. Unrealized losses on derivatives increased $1.9 million to $9.4 million during the first quarter of 2011 due to the reduction in the market value of AgBank's interest rate caps in the derivatives portfolio since December 31, 2010.

At March 31, 2011, AgBank and all Associations exceeded the Farm Credit Administration (FCA) regulatory minimum capital ratios. For a further discussion of the regulatory minimum capital ratios, see Note 4 in the Notes to the Combined Financial Statements.

The following table presents capital ratios for AgBank and the range of ratios and weighted averages for the District Associations.

	March 31, 2011			December 31, 2010		
	Permanent Capital Ratio	**Total Surplus Ratio**	**Core Surplus Ratio**	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio
AgBank	**21.05%**	**16.70%**	**12.83%**	20.23%	16.02%	12.34%
Associations	**12.10% - 29.21%**	**11.25% - 28.81%**	**10.99% - 25.16%**	12.48% - 28.35%	11.02% - 27.95%	10.98% - 24.37%
Association weighted avg.	**16.93%**	**15.43%**	**15.05%**	16.77%	15.29%	14.91%
Regulatory minimum	**7.00%**	**7.00%**	**3.50%**	7.00%	7.00%	3.50%

Our capital position is reflected in the following ratio comparisons.

	March 31, 2011	December 31, 2010
Shareholders' equity as a percent of total assets	**17.88%**	17.04%
Retained earnings as a percent of total shareholders' equity	**91.52%**	91.27%

LOAN PORTFOLIO

Our loan volume at March 31, 2011 was $23.68 billion, a net decrease of $627.2 million compared with $24.31 billion at December 31, 2010. Short- and intermediate-term volume decreased $601.9 million and real estate mortgage volume decreased $213.2 million primarily due to seasonal repayments and a reduction in demand. In light of the current economic conditions, we have continued adherence to prudent underwriting standards, carefully managed loan growth, and maintained conservative capital ratios, while continuing to fulfill our mission.

Loan Types

The types of loans outstanding are reflected in the following table.

(dollars in millions)	**March 31, 2011**	December 31, 2010
Real estate mortgage loans	**$ 14,772.5**	$ 14,985.7
Production and intermediate-term loans	**5,113.0**	5,714.9
Agribusiness loans to:		
Cooperatives	**581.6**	461.3
Processing and marketing operations	**2,020.2**	1,974.4
Farm related businesses	**523.1**	511.7
Communication loans	**108.5**	100.4
Energy loans	**231.0**	245.2
Water and waste disposal loans	**18.0**	18.0
Rural residential real estate loans	**63.4**	62.8
Lease receivables	**134.8**	120.5
International loans	**75.6**	76.1
Mission-related loans	**3.7**	3.7
Other financing institution loans	**34.7**	32.5
Total	**$ 23,680.1**	$ 24,307.2

Included in real estate mortgage loan volume are loans guaranteed by Farmer Mac. These loans were $629.0 million at March 31, 2011 compared with $639.0 million at December 31, 2010.

Loan Products

Approximately 50% of the District's portfolios are variable rate loans and 48% are fixed rate loans. Adjustable rate loans comprise 2%. The following table indicates the type of variable and fixed rate loans in the portfolio. While administered variable rate loans are not tied to an external index, the Prime, LIBOR and adjustable rate loans are externally indexed.

	March 31, 2011	December 31, 2010
Variable rate loans		
Administered variable	**46%**	47%
Variable indexed to LIBOR	**2%**	2%
Variable indexed to Prime	**2%**	2%
Fixed rate loans		
Fixed rate to maturity	**23%**	23%
Fixed rate to conversion	**25%**	24%
Adjustable rate loans	**2%**	2%
Total	**100%**	100%

Loan Quality

Based on our borrowers' generally strong financial positions, our credit quality remained sound despite continuing economic challenges. Agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Although credit quality has remained sound, less favorable agricultural conditions have led to some weakening in the loan portfolio. Loans classified under the Uniform Loan Classification System as "acceptable" and "other assets especially mentioned" (OAEM) as a percentage of total loans and accrued interest receivable were 95.55% at March 31, 2011 compared with 95.69% at December 31, 2010. The following table presents statistics related to the credit quality of the loan portfolio.

(dollars in millions)	**March 31, 2011**		December 31, 2010	
Acceptable	**$ 21,424.1**	**89.61%**	$ 22,060.4	89.86%
OAEM	**1,419.0**	**5.94**	1,432.1	5.83
Total acceptable	**$ 22,843.1**	**95.55%**	$ 23,492.5	95.69%
Substandard	**1,054.1**	**4.41**	1,050.1	4.28
Doubtful	**9.5**	**0.04**	8.6	0.03
Total	**$ 23,906.7**	**100.00%**	$ 24,551.2	100.00%

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) decreased $706 thousand to $425.4 million at March 31, 2011, as compared with $426.1 million at December 31, 2010. Nonaccrual loan volume, the largest component of nonperforming assets, remains relatively low at 1.2% of total loans at March 31, 2011 and December 31, 2010. Nonaccrual loan volume at March 31, 2011 totaled $283.6 million, a decrease of $5.4 million, or 1.9%, compared with nonaccrual loan volume of $289.0 million at December 31, 2010. The change in nonaccrual loans from year-end 2010 was primarily related to transfers to other property owned and repayments. Nonaccrual loans by type are reflected in the following table.

(dollars in thousands)	**March 31, 2011**	December 31, 2010
Real estate mortgage loans	**$ 178,755**	$ 183,488
Production and intermediate-term loans	**70,146**	74,599
Agribusiness loans	**32,744**	29,446
Communication loans	**715**	721
Rural residential real estate loans	**396**	409
Lease receivables	**852**	346
Total	**$ 283,608**	$ 289,009

Other property owned increased $7.2 million to $122.9 million since December 31, 2010. The increase was primarily due to a dairy facility acquired during the quarter. The larger properties included in other property owned are related to fed cattle, nurseries, dairy, wine and grapes.

We maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution, considering such factors as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition and concentrations. Although aggregated in the District's combined financial statements, the allowance for loan losses of each District entity is particular to that institution and is not available to absorb losses realized by other District entities. Based on the on-going risk assessments used across the District, the allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the respective loan portfolios. The allowance for loan losses at March 31, 2011 was $120.8 million, a net increase of $2.2 million, or 1.9%, from $118.6 million at December 31, 2010. Impacting the allowance for loan losses was $6.5 million of provision for loan losses offset by $4.3 million of net charge-offs recorded during the first quarter of 2011. The increased allowance for loan losses was due to continuing stressed economic conditions, commodity market volatility and general market instability.

Risk funds (total capital and the allowance for loan losses), which is a measure of risk-bearing capacity, totaled $5.41 billion at March 31, 2011 and $5.29 billion at December 31, 2010, and increased to 22.8% of District loans at March 31, 2011, as compared with 21.8% at December 31, 2010.

LIQUIDITY AND INVESTMENTS

Liquidity is needed to pay Systemwide Debt Securities as they mature, fund loans and other commitments, and for business operations for AgBank and the Associations. Our primary source of liquidity is AgBank's ability to issue Federal Farm Credit Banks Systemwide Debt Securities. A secondary source of liquidity is AgBank's liquid assets in its investment portfolio.

AgBank's liquid assets are comprised of cash and eligible investment securities. To be considered eligible for liquidity purposes, at least one credit rating of an investment security must be in the highest rated category of a nationally recognized credit rating service. AgBank's liquid assets decreased $45.8 million during the first quarter of 2011 to $4.10 billion due to a reduction in cash held, principal payments on investments, a downgrade on a private label FHA/VA reperformer security and a reduction in the fair value of our investment securities, offset by purchases of U.S. Government guaranteed (GNMA) securities and agency guaranteed securities. Liquid assets were 16.8% of AgBank's total assets at March 31, 2011 and 16.3% at December 31, 2010.

FCA regulations require that AgBank's cash (including the proceeds of debt newly issued but not settled) and eligible investments be maintained in amounts sufficient to meet 90 days of maturing debt obligations on a continuous basis assuming no access to the capital markets. As of March 31, 2011, AgBank held liquid assets comprised of cash and eligible marketable investments to be able to fund 147 days of maturing debt. During the first three months of 2011, AgBank held liquid assets to be able to cover maturing debt for an estimated 146 days on average. As of March 31, 2011, AgBank had 21 days coverage in cash and treasuries and an additional 81 days coverage in 100% U.S. government guaranteed securities, which exceeded its liquidity targets of 15 days and an additional 30 days, respectively.

Funding Sources

The Farm Credit System is a government-sponsored enterprise (GSE) which has benefitted from broad access to the domestic and global capital markets. This access has provided us with a dependable source of competitively priced debt which is critical for supporting our mission of providing credit to agriculture and rural America. On April 18, 2011, Standard and Poor's Rating Service (S&P) affirmed its AAA long-term credit rating for the U.S. and revised its outlook on the long-term credit rating from "stable" to "negative." Two days later, S&P revised its outlook on the long-term credit ratings of all GSEs from "stable" to "negative," while affirming the AAA ratings, in correlation with its action on the long-term outlook of the U.S. The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities, but our rating is constrained by the long-term sovereign rating on the U.S. We anticipate no impact to our continued access to funding at competitive rates and terms necessary to support our lending and business operations. We rely on System funding as we do not have access to funding through deposits.

AgBank had the following Systemwide debt obligations outstanding as of:

	March 31, 2011			December 31, 2010		
	Amount	**Weighted Interest Rate**	**Weighted Maturity**	Amount	Weighted Interest Rate	Weighted Maturity
Bonds	**$ 20,911,927**	**1.77%**	**2.99 years**	$ 21,242,459	1.82%	3.03 years
Discount notes	**2,033,567**	**0.23**	**102 days**	2,588,951	0.24	112 days
Medium-term notes	**45,230**	**5.34**	**2.30 years**	50,268	5.49	2.31 years
Total	**$ 22,990,724**	**1.64%**	**2.74 years**	$ 23,881,678	1.66%	2.74 years

In addition, AgBank has various credit arrangements with other financial institutions for liquidity purposes, although none are formally committed facilities.

Investments

As a means of mitigating the risk of short-term disruptions in our ability to obtain funding for business operations, AgBank maintains an investment portfolio. Additionally, we are authorized to hold mission-related investments and other investments to support rural America. The investment portfolio, excluding mission-related and other investments, is subject to a regulatory limit of 35% of average loans. As of March 31, 2011, AgBank's investments were 23.5% of average outstanding loans for the previous quarter.

Eligible Investments for Liquidity

Under FCA regulations, AgBank is authorized to hold eligible investments for purposes of maintaining a diverse source of liquidity, managing short-term surplus funds, and managing interest rate risk. The eligible investment portfolio, which excludes mission related and other investments, and securities that have become ineligible, serves as the major component of AgBank's liquidity portfolio.

As of March 31, 2011, approximately 78% of AgBank's total eligible investment portfolio consisted of U.S. Treasuries, U.S. government guaranteed and federal agency guaranteed mortgage-backed securities. An additional, 8.8% were FHA/VA reperformer securities that are private label mortgage-backed securities where the underlying loans are approximately 90% government guaranteed or insured and are further supported by certificates guaranteed by FNMA and FHLMC (federal agency wrap). Another 4.2% of the eligible investments are FDIC insured and therefore, fully guaranteed by the U.S. government.

All of the investment securities held for liquidity are classified available-for-sale and reported at their estimated fair value in the Combined Statement of Condition. The composition of the eligible investment portfolio was as follows:

	March 31, 2011		December 31, 2010	
Eligible Investments for liquidity	**Carrying Value**	**Percent of Total**	Carrying Value	Percent of Total
U.S. Treasury securities	**$ 552,040**	**14.0%**	$ 552,111	14.2%
Mortgage-backed securities (MBS)				
U.S. Government guaranteed (GNMA)	**2,037,967**	**51.8**	1,880,625	48.2
Federal Agency guaranteed (FNMA, FHLMC)	**459,503**	**11.7**	469,315	12.0
Private Label – FHA/VA reperformers with federal agency wrap	**344,926**	**8.8**	354,320	9.1
Private Label – FHA/VA reperformers without federal agency wrap	**295,600**	**7.5**	378,839	9.7
Non-agency	**49,546**	**1.3**	54,957	1.4
Total MBS	**$ 3,187,542**	**81.1%**	$ 3,138,056	80.4%
FDIC insured bank debt	**163,233**	**4.2**	178,418	4.6
Non-agency home equity asset-backed securities (ABS)	**27,677**	**0.7**	29,960	0.8
Total eligible investment securities	**$ 3,930,492**	**100.0%**	$ 3,898,545	100.0%

Mission-related Investments and Other Investments

To further the System's mission to serve rural America, the District has mission-related programs which have been approved by the FCA. The FCA determines limitations on mission-related investments. Additionally, we are authorized to hold Farmer Mac securities, which are included in other investments. These securities are backed by agricultural real estate mortgages. Investments that are ineligible for liquidity purposes are also included in the following table along with these investments. AgBank may be required by FCA to divest of certain types of investments within six months should one become ineligible under the regulations. AgBank has submitted plans to FCA to continue to hold these securities and FCA has approved AgBank holding these securities subject to meeting certain specified conditions. Farmer Mac, mission-related and other investments are not included in the liquidity calculations as they do not have the same liquidity characteristics as eligible investments. The composition of our mission-related and other investments portfolio was as follows:

Mission-Related and Other Investments	**March 31, 2011** Carrying Value	Percent of Total	December 31, 2010 Carrying Value	Percent of Total
Available-for-sale:				
Farmer Mac securities	**$ 405,346**	**33.4%**	$ 424,431	35.5%
Ineligible securities for liquidity:				
Private Label MBS – FHA/VA reperformers without federal agency wrap	**375,948**	**31.0**	312,042	26.1
Non-agency MBS	**133,471**	**11.0**	144,472	12.1
Non-agency home equity ABS	**48,729**	**4.0**	52,160	4.3
Total available-for-sale	**$ 963,494**	**79.4%**	$ 933,105	78.0%
Held-to-maturity:				
Farmer Mac securities	**$ 243,238**	**20.1%**	257,528	21.5%
Mission-related investments	**5,579**	**0.5**	5,961	0.5
Total held-to-maturity	**$ 248,817**	**20.6%**	$ 263,489	22.0%
Total mission-related and other investments	**$ 1,212,311**	**100.0%**	$ 1,196,594	100.0%

Additional Investment Information

At March 31, 2011, AgBank held eligible and ineligible non-agency home equity asset-backed securities with a fair value of $76.4 million that were primarily first lien securities collateralized by subprime home equity mortgages. These securities are 1.5% of the total investment portfolio. As of March 31, 2011, asset-backed securities with a fair value of $48.7 million have been downgraded below investment grade (below BBB) by all rating agencies.

At March 31, 2011, AgBank held eligible and ineligible non-agency mortgage-backed securities with a fair value of $183.0 million, which are 3.6% of the total portfolio. These non-agency securities are supported by underlying fixed and adjustable rate mortgages that are either nonconforming as to size or were originated with limited documentation. Securities with a fair value of $133.5 million were downgraded below investment grade by all rating agencies as of March 31, 2011.

AgBank also held private label FHA/VA reperformer securities with a fair value of $671.5 million at March 31, 2011 where the underlying loans are approximately 90% government guaranteed or insured but have no further guarantees by FNMA or FHLMC or other federal agency. These are credit enhanced by minor amounts of subordination and are 13.1% of our total portfolio. During the first quarter of 2011, one additional FHA/VA security was downgraded below AAA and became ineligible. FHA/VA reperformer securities with a fair value of $375.9 million have been downgraded below AAA by all rating agencies as of March 31, 2011.

Other-Than-Temporarily Impaired Investments

Due to the deterioration of the underlying collateral, AgBank recognized $4.3 million of additional other-than-temporarily impaired credit-related losses on three non-agency mortgage-backed securities during the first three months of 2011. These securities had previously recognized other-than-temporary impairment. During the first quarter of 2010, no other-than-temporary impairments were recognized.

Unrealized Investment Losses

The investment securities had a gross unrealized loss position of $212.0 million at March 31, 2011, which included the non-credit related loss component of other-than-temporarily impaired securities. At December 31, 2010, investment securities had a gross unrealized loss position of $214.8 million. The length of time that individual securities have been valued below book value ranges from one month to over 12 months with unrealized losses ranging from less than $1 thousand to over $24 million. The gross unrealized loss for these investments is 4.0% of the amortized cost of total investment securities. The unrealized loss position is primarily due to the level of market interest rates and reduced liquidity in the marketplace. We do not intend to sell the securities and it is not likely that we will be required to sell the securities before recovery of their amortized cost basis. Except for the securities where we have recognized a credit-related other-than-temporary impairment as discussed previously, these unrealized investment losses are not considered to be other-than-temporary impairments at March 31, 2011. We continue to monitor these losses closely and subsequent changes in market or credit conditions could change our evaluation.

INTEREST RATE RISK MANAGEMENT

Our overall interest rate risk (IRR) management objective is to maintain a sound level of capital, earnings, market value of equity, and liquidity, regardless of the interest rate environment. The wholesale funding AgBank provides generally matches the terms and embedded options of the retail loans held by Associations. Because AgBank match funds most of the Association retail loans, AgBank incurs and manages the majority of IRR for the District. Derivative financial instruments are used as hedges against interest rate and liquidity risks and to lower the overall cost of funds. Derivative transactions are not entered into or held for trading or speculative purposes. The ability to issue various types of debt securities, or modify the debt securities by using derivative instruments, provides greater flexibility to manage interest rate risk.

By using derivative instruments, AgBank is exposed to the credit risk of the derivative counterparty. The credit risk exposure is a small percentage of the notional amounts and represents the replacement cost of the derivative in the marketplace in the event of non-performance by the counterparty. To the extent that the derivative has a positive fair value and therefore is recorded as a derivative asset, the counterparty would owe AgBank on early termination of the derivative and AgBank is exposed to credit risk from the counterparty. As of March 31, 2011, AgBank has gross credit exposure of $73.9 million to 7 counterparties. AgBank held $490 thousand of cash and $19.4 million of investment securities as collateral on that exposure. AgBank's exposure net of collateral is $54.0 million.

In cases where we would owe the counterparty on early termination of the derivative, credit risk is not created. As of March 31, 2011 and December 31, 2010, we did not owe any counterparties, so no counterparties had exposure to us. No collateral was required to be posted by us at March 31, 2011 or December 31, 2010.

2010 ANNUAL REPORT

For a complete discussion of our loan portfolio, capital resources, interest rate risk management, liquidity, and derivatives, please refer to the 2010 Annual Report to Shareholders, which can be viewed on the AgBank website at www.usagbank.com.

CERTIFICATION

The undersigned certify we have reviewed this report, that it has been prepared under the oversight of the Audit Committee of U.S. AgBank, FCB, 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.

May 10, 2011

John Eisenhut
Chairman of the Board
U.S. AgBank, FCB

Darryl W. Rhodes
President and Chief Executive Officer
U.S. AgBank, FCB

David D. Janish
Senior Vice President – Finance
U.S. AgBank, FCB

COMBINED STATEMENT OF CONDITION

U.S. AgBank District
(Dollars in thousands)

	March 31, 2011 Unaudited	December 31, 2010
ASSETS		
Loans	**$ 23,680,065**	$ 24,307,238
Less: Allowance for loan losses	**120,791**	118,557
Net loans	**23,559,274**	24,188,681
Cash	**197,225**	330,341
Investment securities	**5,142,803**	5,095,139
Accrued interest receivable	**245,351**	266,117
Other property owned	**122,893**	115,693
Premises and equipment, net	**136,958**	134,880
Derivative assets	**67,391**	78,218
Other assets	**122,633**	124,029
Total assets	**$ 29,594,528**	$ 30,333,098
LIABILITIES		
Systemwide debt securities	**$ 22,990,724**	$ 23,881,678
Other bonds and notes	**951,567**	804,248
Accrued interest payable	**100,112**	96,268
Patronage refunds payable	**28,803**	108,837
Derivative liabilities	**3,982**	2,938
Other liabilities	**228,198**	270,488
Total liabilities	**24,303,386**	25,164,457
Commitments and Contingencies (Note 10)		
SHAREHOLDERS' EQUITY		
Protected stock	**$ 228**	$ 265
Preferred stock	**547,062**	543,192
Stock and participation certificates	**38,429**	38,646
Unallocated retained earnings	**4,842,339**	4,717,655
Additional paid in capital	**206,226**	206,226
Accumulated other comprehensive income/(loss), net of tax	**(343,142)**	(337,343)
Total shareholders' equity	**5,291,142**	5,168,641
Total liabilities and shareholders' equity	**$ 29,594,528**	$ 30,333,098

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

COMBINED STATEMENT OF INCOME

U.S. AgBank District
(Dollars in thousands)

	For the three months ended March 31			
Unaudited		**2011**		2010
INTEREST INCOME				
Loans		**$ 282,480**		$ 291,792
Investment securities		**17,274**		26,109
Total interest income		**299,754**		317,901
INTEREST EXPENSE		**97,971**		127,452
Net interest income		**201,783**		190,449
Provision for loan losses		**6,488**		18,384
Net interest income after provision for loan losses		**195,295**		172,065
NONINTEREST INCOME				
Loan and prepayment fee income		**7,436**		5,833
Financially related services income		**3,063**		2,423
Mineral income		**2,876**		2,770
Insurance fund distribution		**–**		29,783
Other noninterest income		**11,936**		12,142
Total noninterest income		**25,311**		52,951
NONINTEREST EXPENSE				
Salaries and employee benefits		**50,433**		49,738
Occupancy and equipment		**4,688**		4,410
Other operating expenses		**17,731**		16,184
Supervisory expense		**2,740**		2,462
Merger-implementation costs		**778**		93
Losses on other property owned, net		**2,073**		825
Insurance fund premium expense		**3,218**		5,332
Concession expense write-off on called debt		**506**		2,311
Total other-than-temporary impairment loss	**6,747**		–	
Portion of loss recognized in other comprehensive income	**(2,494)**		–	
Net impairment loss recognized in earnings		**4,253**		–
Total noninterest expense		**86,420**		81,355
Income before income taxes		**134,186**		143,661
Provision for income taxes		**462**		863
Net income		**$ 133,724**		$ 142,798

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

COMBINED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. AgBank District

(Dollars in thousands)

Unaudited	Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings Unallocated	Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2010	**$ 543,192**	**$ 38,911**	**$ 4,717,655**	**$ 206,226**	**$ (337,343)**	**$ 5,168,641**
Comprehensive Income						
Net income			**133,724**			
Change in unrealized losses on investments available-for-sale, net					**(9,931)**	
Net impairment loss recognized in earnings					**4,253**	
Change in unrealized losses on derivatives					**(1,915)**	
Change in retirement obligation					**1,794**	
Total comprehensive income						**127,925**
Stock and participation certificates issued	**92,910**	**868**				**93,778**
Stock and participation certificates retired	**(89,084)**	**(1,122)**				**(90,206)**
Cash patronage refunds			**(7,673)**			**(7,673)**
Preferred stock cash dividends			**(1,323)**			**(1,323)**
Stock dividends	**44**		**(44)**			**–**
Balance at March 31, 2011	**$ 547,062**	**$ 38,657**	**$ 4,842,339**	**$ 206,226**	**$ (343,142)**	**$ 5,291,142**
Balance at December 31, 2009	$ 486,360	$ 39,237	$ 4,339,177	$ 206,226	$ (456,412)	$ 4,614,588
Comprehensive Income						
Net income			142,798			
Change in unrealized losses on investments available-for-sale, net					30,535	
Change in unrealized losses on derivatives					(6,904)	
Change in retirement obligation					2,901	
Total comprehensive income						169,330
Stock and participation certificates issued	116,217	909				117,126
Stock and participation certificates retired	(64,464)	(1,025)				(65,489)
Cash patronage refunds			(5,130)			(5,130)
Preferred stock cash dividends			(1,174)			(1,174)
Stock dividends	28		(28)			–
Balance at March 31, 2010	**$ 538,141**	**$ 39,121**	**$ 4,475,643**	**$ 206,226**	**$ (429,880)**	**$ 4,829,251**

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

COMBINED STATEMENT OF CASH FLOWS

U.S. AgBank District
(Dollars in thousands)

	For the three months ended March 31	
Unaudited	**2011**	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 133,724**	$ 142,798
Adjustments to reconcile net income to cash provided by/(used in) operating activities:		
Depreciation on premises and equipment	**2,568**	2,406
Provision for loan losses	**6,488**	18,384
Amortization of premium on debt instruments	**(2,999)**	(1,564)
Amortization of premium/(discount) on investments and acquired loans	**1,384**	(4,182)
Loss on impaired investments	**4,253**	–
Net write down and sales of other property owned	**2,630**	825
Gains on the sale of premises and equipment	**(80)**	(275)
Derivative hedging activities	**(2,878)**	(5,627)
Change in assets and liabilities:		
Decrease in accrued interest receivable	**22,708**	33,060
Decrease in other assets	**1,396**	12,236
Increase in accrued interest payable	**3,742**	548
Decrease in other liabilities	**(33,622)**	(64,851)
Total adjustments	**5,590**	(9,040)
Net cash provided by operating activities	**139,314**	133,758
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan principal collected, net	**607,106**	448,182
Investments available-for-sale:		
Purchases	**(508,819)**	(225,826)
Proceeds from maturities and principal payments	**437,038**	500,593
Investments held-to-maturity:		
Proceeds from maturities and principal payments	**14,670**	16,656
Expenditures for premises and equipment, net	**(4,566)**	(4,113)
Proceeds/(Loss) from sales of other property owned	**4,113**	(884)
Decrease in notes receivable	**1**	1,250
Net cash provided by investing activities	**549,543**	735,858
CASH FLOWS FROM FINANCING ACTIVITIES:		
Systemwide debt retired, net	**(879,486)**	(939,509)
Increase in other bonds and notes	**149,845**	41,790
Patronage distributions paid	**(87,707)**	(58,159)
Cash dividends paid	**(8,197)**	(8,048)
Stock issued	**93,778**	117,126
Stock retired	**(90,206)**	(65,489)
Net cash used in financing activities	**(821,973)**	(912,289)
Net decrease in cash	**(133,116)**	(42,673)
Cash at beginning of period	**330,341**	255,927
Cash at end of period	**$ 197,225**	$ 213,254

(continued)

COMBINED STATEMENT OF CASH FLOWS (continued from previous page)

U.S. AgBank District
(Dollars in thousands)

	For the three months ended March 31	
Unaudited	**2011**	2010
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Financed sales of other property owned	**$ 2,522**	$ –
Loan amounts transferred to other property owned	**16,465**	5,731
Loan amounts charged off	**4,522**	6,254
Patronage refunds transferred to other liabilities from:		
Unallocated retained earnings	**7,780**	5,130
Preferred stock cash dividends declared	**1,323**	1,174
Stock dividends declared	**44**	28
Change in unrealized losses in other comprehensive income	**(5,799)**	26,533
SUPPLEMENTAL INFORMATION:		
Interest paid	**94,296**	127,194
Income taxes paid	**598**	548

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

U.S. AgBank District

(Dollars in thousands, except as noted)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined financial statements include the accounts of U.S. AgBank, FCB (AgBank), the 24 District Agricultural Credit Associations (ACAs), the 2 District Federal Land Credit Associations (FLCAs), and AgVantis, Inc. (AgVantis) and reflect the investments in, and allocated earnings of, the service organizations in which AgBank has a partial ownership interest. AgBank, its related Associations and AgVantis are collectively referred to as the "District." ACAs and FLCAs are collectively referred to as "Associations." All significant transactions and balances among AgBank, Associations and AgVantis have been eliminated in combination.

The significant accounting policies followed and the financial condition and results of operations of the District as of December 31, 2010 are contained in the 2010 Annual Report to Shareholders. These unaudited first quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Shareholders, which can be viewed on the AgBank website at www.usagbank.com.

As discussed in our 2010 Annual Report, in December 2010, each Board of Directors of AgBank and CoBank, ACB approved a Letter of Intent to pursue a merger. In March 2011, following unanimous votes by the boards of both banks, a merger application was submitted to the Farm Credit Administration (FCA). On April 25, 2011, the FCA determined the merger application to be complete, triggering a 60-day statutory time period to act on the application. An issuance of preliminary approval by the FCA would enable AgBank and CoBank to conduct stockholder votes on the merger this summer. If the merger is approved, the banks are targeting an effective date of October 1, 2011.

The merged bank would continue to do business under the CoBank name and be headquartered just outside Denver, Colorado, but it would maintain AgBank's presence and operation in Wichita and Sacramento. Robert B. Engel, CoBank's president and chief executive officer, would be the chief executive of the combined entity. CoBank had total assets of $69.3 billion and capital of $4.5 billion at March 31, 2011.

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." In April 2011, the FASB issued guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring." For public entities, the effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring is effective for periods beginning after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For non-public entities, the guidance is effective for annual periods ending after December 15, 2012 including interim periods within the annual period.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses," which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, 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 disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard had no impact on the District's financial condition or results of operations, but did result in significant additional disclosures.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more robust 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 Standard had no impact on the District's financial condition and results of operations but resulted in additional disclosures.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The results of operations for the three-month period ended March 31, 2011, are not necessarily indicative of the results to be expected for the full year. Certain amounts in prior year financial statements have been reclassified to conform to the current year's financial statement presentation.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows:

	March 31 2011	December 31 2010
Real estate mortgage	**$ 14,772,503**	$ 14,985,673
Production and intermediate-term	**5,112,983**	5,714,880
Agribusiness:		
Loans to cooperatives	**581,629**	461,307
Processing and marketing	**2,020,188**	1,974,472
Farm related business	**523,125**	511,725
Communication	**108,454**	100,374
Energy	**230,960**	245,219
Water and waste disposal	**18,000**	18,000
International	**75,614**	76,080
Rural residential real estate	**63,386**	62,799
Lease receivables	**134,810**	120,474
Mission-related	**3,713**	3,735
OFI loans	**34,700**	32,500
Total loans	**$ 23,680,065**	$ 24,307,238

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification system as a percentage of total loans and related accrued interest receivable by loan type as of:

	March 31 2011	December 31 2010
Real estate mortgage		
Acceptable	**90.12%**	90.23%
OAEM	**5.64**	5.51
Substandard	**4.23**	4.26
Doubtful	**0.01**	–
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**86.35%**	87.06%
OAEM	**7.48**	7.44
Substandard	**6.15**	5.48
Doubtful	**0.02**	0.02
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**90.63%**	91.33%
OAEM	**5.96**	5.66
Substandard	**3.21**	2.79
Doubtful	**0.20**	0.22
Total	**100.00%**	100.00%
Energy		
Acceptable	**97.44%**	98.65%
OAEM	**1.14**	–
Substandard	**1.42**	1.35
Total	**100.00%**	100.00%
Waste disposal		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Communication		
Acceptable	**99.34%**	99.28%
Substandard	**0.25**	0.27
Doubtful	**0.41**	0.45
Total	**100.00%**	100.00%
Rural residential real estate		
Acceptable	**97.27%**	97.68%
OAEM	**0.53**	0.57
Substandard	**2.20**	1.75
Total	**100.00%**	100.00%
International		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Lease receivables		
Acceptable	**99.97%**	99.67%
OAEM	**0.03**	0.04
Substandard	**–**	0.29
Total	**100.00%**	100.00%
Mission-related		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Loans to other financing institutions (OFI)		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**89.61%**	89.86%
OAEM	**5.94**	5.83
Substandard	**4.41**	4.28
Doubtful	**0.04**	0.03
Total	**100.00%**	100.00%

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

(dollars in thousands)	**March 31 2011**	December 31 2010
Nonaccrual loans		
Real estate mortgage	**$ 178,755**	$ 183,488
Production and intermediate-term	**70,146**	74,599
Agribusiness	**32,744**	29,446
Communication	**715**	721
Rural residential real estate	**396**	409
Lease receivables	**852**	346
Total nonaccrual loans	**283,608**	289,009
Accruing restructured loans		
Real estate mortgage	**10,035**	10,208
Production and intermediate-term	**19**	19
Rural residential real estate	**5**	6
Total accruing restructured loans	**10,059**	10,233
Accruing loans 90 days past due		
Real estate mortgage	**7,456**	7,006
Production and intermediate-term	**1,351**	4,131
Total accruing loans 90 days past due	**8,807**	11,137
Total impaired loans	**302,474**	310,379
Other property owned	**122,893**	115,693
Total high risk assets	**$ 425,367**	$ 426,072

Additional impaired loan information is as follows:

	At March 31, 2011			For the three months ended March 31, 2011	
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	**$ 30,344**	**$ 34,559**	**$ 7,275**	**$ 27,719**	**$ 25**
Production and intermediate-term	**32,097**	**40,597**	**8,270**	**33,903**	**–**
Agribusiness					
Processing and marketing	**19,222**	**23,346**	**9,024**	**19,646**	**4**
Farm-related business	**192**	**257**	**185**	**179**	**–**
Communication	**715**	**715**	**456**	**720**	**–**
Rural residential real estate	**192**	**192**	**12**	**193**	**1**
Lease receivables	**811**	**811**	**225**	**418**	**–**
Total	**$ 83,573**	**$ 100,477**	**$ 25,447**	**$ 82,778**	**$ 30**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	**$ 165,902**	**$ 166,282**		**$ 160,848**	**$ 958**
Production and intermediate-term	**39,419**	**48,692**		**41,108**	**583**
Agribusiness					
Processing and marketing	**10,735**	**25,170**		**7,596**	**1**
Farm-related business	**2,595**	**5,415**		**2,482**	**–**
Communication	**–**	**–**		**–**	**–**
Rural residential real estate	**209**	**210**		**215**	**–**
Lease receivables	**41**	**41**		**66**	**–**
Total	**$ 218,901**	**$ 245,810**		**$ 212,315**	**$ 1,542**
Total impaired loans:					
Real estate mortgage	**$ 196,246**	**$ 200,841**	**$ 7,275**	**$ 188,567**	**$ 983**
Production and intermediate-term	**71,516**	**89,289**	**8,270**	**75,011**	**583**
Agribusiness					
Processing and marketing	**29,957**	**48,516**	**9,024**	**27,242**	**5**
Farm-related business	**2,787**	**5,672**	**185**	**2,661**	**–**
Communication	**715**	**715**	**456**	**720**	**–**
Rural residential real estate	**401**	**402**	**12**	**408**	**1**
Lease receivables	**852**	**852**	**225**	**484**	**–**
Total	**$ 302,474**	**$ 346,287**	**$ 25,447**	**$ 295,093**	**$ 1,572**

	At December 31, 2010			For the Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 26,072	$ 30,315	$ 6,221	$ 17,389	$ 240
Production and intermediate-term	29,686	37,953	7,359	51,068	16
Agribusiness					
Loans to cooperatives	–	–	–	–	–
Processing and marketing	19,684	23,798	8,895	43,714	–
Farm-related business	195	258	187	1,467	–
Communication	721	721	452	687	–
Rural residential real estate	195	195	15	276	–
Lease receivables	290	290	103	399	–
Total	$ 76,843	$ 93,530	$ 23,232	$ 115,000	$ 256
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 174,631	$ 175,575		$ 147,338	$ 3,467
Production and intermediate-term	49,063	58,487		51,437	1,840
Agribusiness					
Loans to cooperatives	–	–		187	33
Processing and marketing	6,947	21,416		5,287	42
Farm-related business	2,619	5,380		1,475	97
Communication	–	–		384	–
Rural residential real estate	220	220		144	23
Lease receivables	56	56		329	17
Total	$ 233,536	$ 261,134		$ 206,581	$ 5,519
Total impaired loans:					
Real estate mortgage	$ 200,703	$ 205,890	$ 6,221	$ 164,727	$ 3,707
Production and intermediate-term	78,749	96,440	7,359	102,505	1,856
Agribusiness					
Loans to cooperatives	–	–	–	187	33
Processing and marketing	26,631	45,214	8,895	49,001	42
Farm-related business	2,814	5,638	187	2,942	97
Communication	721	721	452	1,071	–
Rural residential real estate	415	415	15	420	23
Lease receivables	346	346	103	728	17
Total	$ 310,379	$ 354,664	$ 23,232	$ 321,581	$ 5,775

The following table provides an age analysis of past due loans (including accrued interest) as of March 31, 2011:

	30-89 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 and Accruing
Real estate mortgage	$ 43,029	$ 106,262	$ 149,291	$ 14,781,503	$ 14,930,794	$ 7,456
Production and intermediate-term	45,592	28,844	74,436	5,086,859	5,161,295	1,351
Agribusiness	9,373	15,555	24,928	3,117,988	3,142,916	–
Communication	–	–	–	108,546	108,546	–
Energy	11	–	11	231,519	231,530	–
Water and waste disposal	–	–	–	18,313	18,313	–
International	–	–	–	76,287	76,287	–
Rural residential real estate	343	–	343	63,384	63,727	–
Lease receivables	–	–	–	134,875	134,875	–
Mission-related	–	–	–	3,735	3,735	–
OFIs	–	–	–	34,728	34,728	–
Total	$ 98,348	$ 150,661	$ 249,009	$ 23,657,737	$ 23,906,746	$ 8,807

Note: 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.

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

	Balance at December 31, 2010	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at March 31, 2011
Real estate mortgage	$ 37,705	$ (3,137)	$ 97	$ 6,707	$ 41,372
Production and intermediate-term	53,501	(689)	94	(649)	52,257
Agribusiness	23,466	(696)	48	480	23,298
Communication	594	–	–	(6)	588
Energy	2,275	–	29	25	2,329
Water and waste disposal	6	–	–	–	6
International	21	–	–	10	31
Rural residential real estate	53	–	–	(5)	48
Lease receivables	935	–	–	(74)	861
Mission-related	1	–	–	–	1
Total	$ 118,557	$ (4,522)	$ 268	$ 6,488	$ 120,791

	Allowance for Credit Losses Ending Balance at March 31, 2011		Recorded Investments in Loans Outstanding Ending Balance at March 31, 2011	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ 7,440	$ 33,932	$ 198,662	$ 14,732,131
Production and intermediate-term	8,446	43,811	73,451	5,087,844
Agribusiness	9,208	14,090	32,744	3,110,172
Communication	456	132	715	107,831
Energy	–	2,329	–	231,530
Water and waste disposal	–	6	–	18,313
International	–	31	–	76,287
Rural residential real estate	12	36	401	63,327
Lease receivables	225	636	852	134,023
Mission-related	–	1	–	3,735
Loans of OFIs	–	–	–	34,728
Total	$ 25,787	$ 95,004	$ 306,825	$ 23,599,921

NOTE 3 - INVESTMENT SECURITIES

The District investment portfolio consists of debt securities having two components: the available-for-sale portfolio and the held-to-maturity portfolio.

A summary of the amortized cost, gross unrealized gains and losses in accumulated other comprehensive income, fair value and weighted yield of available-for-sale investment securities, which excludes mission-related and Farmer Mac investments, follows:

	March 31, 2011				
	Amortized	Gross Unrealized		Fair	Weighted
Unaudited	**Cost**	**Gains**	**Losses**	**Value**	**Yield**
U.S. Treasury securities	**$ 551,530**	**$ 523**	**$ 13**	**$ 552,040**	**0.37%**
Mortgage-backed securities					
U.S. Government guaranteed	**2,041,164**	**2,636**	**5,833**	**2,037,967**	**0.76%**
Private Label - FHA/VA reperformers	**1,173,286**	**–**	**156,812**	**1,016,474**	**0.54%**
Federal agency guaranteed	**459,935**	**1,896**	**2,328**	**459,503**	**2.39%**
Non-agency	**210,333**	**281**	**27,597**	**183,017**	**1.31%**
FDIC insured bank debt	**162,493**	**740**	**–**	**163,233**	**1.06%**
Non-agency asset-backed securities	**93,605**	**–**	**17,199**	**76,406**	**0.49%**
Total	**$ 4,692,346**	**$ 6,076**	**$ 209,782**	**$ 4,488,640**	**0.85%**

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Yield
U.S. Treasury securities	$ 551,515	$ 602	$ 6	$ 552,111	0.38%
Mortgage-backed securities					
U.S. Government guaranteed	1,874,268	7,965	1,608	1,880,625	0.81%
Private Label – FHA/VA reperformers	1,200,346	–	155,145	1,045,201	0.55%
Federal agency guaranteed	473,197	4,807	8,689	469,315	2.73%
Non-agency	231,578	132	32,281	199,429	1.32%
FDIC insured bank debt	177,490	928	–	178,418	1.00%
Non-agency asset-backed securities	97,379	–	15,259	82,120	0.50%
Total	$ 4,605,773	$ 14,434	$ 212,988	$ 4,407,219	0.91%

The following table is a summary by contractual maturity distribution of available-for-sale securities, excluding mission-related and Farmer Mac investments, providing fair value, amortized cost, and weighted yield at March 31, 2011.

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury securities	$ 552,040	0.37%	$ –	–	$ –	–	$ –	–	$ 552,040	0.37%
Mortgage-backed securities										
U.S. Government guaranteed	–	–	–	–	–	–	2,037,967	0.76%	2,037,967	0.76%
Private Label – FHA/VA reperformers	–	–	–	–	181,671	0.48%	834,803	0.55%	1,016,474	0.54%
Federal agency guaranteed	–	–	–	–	31,615	1.15%	427,888	2.48%	459,503	2.39%
Non-agency	–	–	–	–	–	–	183,017	1.31%	183,017	1.31%
FDIC insured bank debt	70,467	1.59%	92,766	0.66%	–	–	–	–	163,233	1.06%
Non-agency asset-backed securities	–	–	–	–	–	–	76,406	0.49%	76,406	0.49%
Total fair value	$ 622,507	0.51%	$ 92,766	0.66%	$ 213,286	0.57%	$3,560,081	0.93%	$4,488,640	0.85%
Total amortized cost	$ 621,522		$ 92,500		$ 225,249		$3,753,075		$4,692,346	

Substantially all mortgage-backed securities have contractual maturities in excess of ten years. However, actual maturities for mortgage-backed securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment fees. Asset-backed securities can perform similarly to mortgage-backed securities.

The District also holds mission-related and Farmer Mac investments. The FCA approves mission-related programs and mission-related investments. Farmer Mac securities are Agricultural Mortgage-Backed Securities which are pools of agricultural loans that have been securitized and guaranteed by Farmer Mac.

The following is a summary of Farmer Mac investments that are available-for-sale. AgBank and its Associations have no mission-related investments that are available-for-sale.

	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Yield**
Agricultural mortgage-backed securities	**$ 398,447**	**$ 8,538**	**$ 1,639**	**$ 405,346**	**2.15%**

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Yield
Agricultural mortgage-backed securities	$ 417,005	$ 8,895	$ 1,469	$ 424,431	2.30%

The following is a summary of the mission-related and Farmer Mac investments which are held-to-maturity.

March 31, 2011	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Yield**
Agricultural mortgage-backed securities	**$ 243,238**	**$ 5,856**	**$ 540**	**$ 248,554**	**3.53%**
Non-agency asset-backed securities	**5,579**	**817**	**–**	**6,396**	**4.38%**
Total	**$ 248,817**	**$ 6,673**	**$ 540**	**$ 254,950**	**3.55%**

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Yield
Agricultural mortgage-backed securities	$ 257,528	$ 7,086	$ 373	$ 264,241	3.69%
Non-agency asset-backed securities	5,961	1,287	–	7,248	4.39%
Total	$ 263,489	$ 8,373	$ 373	$ 271,489	3.70%

All the mission-related and Farmer Mac investments, those considered available-for-sale and held-to-maturity, have a contractual maturity greater than 10 years.

Other-than-Temporary Impairments

During the first quarter of 2011, AgBank recorded subsequent impairment losses on three non-agency mortgage-backed securities that were determined to be other-than-temporarily impaired resulting in a credit-related loss of $4.3 million being recognized in earnings. During the first quarter of 2010, no investment security impairments were recognized.

The impairment of investment securities is based on a variety of factors, including: i) whether or not an entity intends to sell the security, ii) whether it is more likely than not that an entity would be required to sell the security before recovering its cost, or iii) whether management expects to recover the security's entire amortized cost basis.

AgBank estimates the portion of loss attributable to credit using a discounted cash flow model on a security-by-security basis. AgBank estimates the expected cash flows of the underlying collateral using management's best estimate of current key assumptions, such as default rates, collateral loss, loss severity and voluntary prepayment speeds. Assumptions regarding the underlying collateral of a security can vary widely and are influenced by such factors as the underlying loan interest rate, geographical location of the borrower, borrower characteristics and collateral type. AgBank uses a third party vendor to determine how the underlying collateral cash flows will be distributed to each security issued from a structure. Expected principal and interest cash flows on an impaired debt security are discounted using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value for the specific security. A portion of the other-than-temporary impairment that is not credit-related remains in other comprehensive income and based on the expected cash flows derived from the model, AgBank expects to recover the remaining unrealized losses on these securities. Assumptions used in the credit loss determination were as follows:

	Non-Agency Securities		Asset-Backed Securities		FHA/VA Reperformers
	March 31, 2011	March 31, 2010	**March 31, 2011**	March 31, 2010	**March 31, 2011**
Default Rate Assumptions	**6.4% - 10.2%**	N/A	**N/A**	N/A	**N/A**
Prepayment Rate Assumptions	**6.1% - 7.5%**	N/A	**N/A**	N/A	**N/A**
Loss Severity Assumptions	**52.8% - 57.3%**	N/A	**N/A**	N/A	**N/A**

The table below details the activity related to the credit-related loss component of those debt securities that have been written down for other-than-temporary impairment as of March 31.

	2011	2010
Balance of credit-related loss component as of the beginning of the period	**$ 43,024**	$ 50,699
Initial credit impairments on securities	**–**	–
Subsequent credit impairments	**4,253**	–
Reductions for securities sold during the period (realized loss)	**–**	–
Reductions for subsequent increases in cash flows expected to be collected that are recognized as interest income over the remaining life of the security	**(585)**	–
Ending balance related to credit-related losses at March 31	**$ 46,692**	$ 50,699

Unrealized Losses

In addition to the securities that were determined to be other-than-temporarily impaired as of March 31, 2011, AgBank and the Associations also owned securities that were in an unrealized loss position at March 31, 2011. These investments consisted predominantly of mortgage-backed securities and asset-backed securities. The unrealized loss positions of these securities are primarily due to the level of market interest rates and reduced liquidity in the marketplace. AgBank and Associations do not intend to sell these securities and it is not more likely than not that they will be required to sell these securities before recovery of their amortized cost basis. AgBank and its related Associations' intend to hold these securities for a period of time sufficient to recover all gross unrealized losses. Currently, these securities are not considered to be other-than-temporarily impaired.

The following table shows those District investments in a continuous loss position (including available-for-sale and held-to-maturity) by fair value and gross unrealized losses, aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position. The continuous loss position is based on the date when the unrealized loss was first identified.

	Less than 12 months		**Greater than 12 months**	
March 31, 2011	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury securities	**$ 100,539**	**$ 13**	$ –	$ –
Mortgage-backed securities				
U.S. Government guaranteed	**1,202,272**	**5,833**	–	–
Private Label - FHA/VA reperformers	–	–	**1,016,474**	**156,812**
Federal agency guaranteed	**312,797**	**2,325**	**6,154**	**3**
Non-agency	**306**	**2**	**171,142**	**27,595**
Non-agency asset-backed securities	–	–	**76,406**	**17,199**
Farmer Mac	–	–	**190,239**	**2,179**
Total	**$ 1,615,914**	**$ 8,173**	**$ 1,460,415**	**$ 203,788**

	Less than 12 months		12 months or longer	
December 31, 2010	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ 50,274	$ 6	$ –	$ –
Mortgage-backed securities				
U.S. Government guaranteed	400,197	1,608	–	–
Private Label - FHA/VA reperformers	–	–	1,045,201	155,145
Federal agency guaranteed	191,536	8,671	6,679	18
Non-agency	8,988	48	180,267	32,233
Non-agency asset-backed securities	–	–	82,120	15,259
Farmer Mac	–	–	205,395	1,842
Total	$ 650,995	$ 10,333	$ 1,519,662	$ 204,497

NOTE 4 – CAPITAL

Farm Credit Administration capital adequacy regulations require AgBank and Associations to maintain permanent capital of 7.00 percent, total surplus of 7.00 percent, and core surplus of 3.50 percent of average risk-adjusted assets. In addition, AgBank is required to achieve and maintain net collateral of 103.00 percent of total liabilities. At March 31, 2011, AgBank's permanent capital ratio was 21.05 percent, total surplus ratio was 16.70 percent, core surplus ratio was 12.83 percent, and net collateral ratio was 105.49 percent. All Associations exceeded the regulatory minimum capital requirements at March 31, 2011.

NOTE 5 – INCOME TAXES

Provision for income taxes for the three-month period ended March 31, 2011 was $462 thousand, compared with $863 thousand for the same period in 2010.

Tax provision/tax return differences for the year ending December 31, 2010 have been reflected as adjustments to deferred tax asset balances and current year tax expense as of March 31, 2011. The largest component affecting the deferred tax asset is the provision for or reversal of loan losses recorded by taxable District entities. While provision for loan losses is recorded as an expense for financial statement purposes, it is not available as a tax deduction until a loss has actually been incurred.

The District entities made no adjustments to the deferred tax assets or tax liabilities related to FASB guidance, "Accounting for Uncertainty in Income Taxes."

NOTE 6 – EMPLOYEE BENEFIT PLANS

The following table summarizes the components of net periodic benefit costs for the three months ended March 31:

	Pension Benefits		Other Benefits	
Unaudited	**2011**	2010	**2011**	2010
Service cost	**$ 2,143**	$ 2,015	**$ 66**	$ 22
Interest cost	**5,168**	5,290	**176**	92
Expected return on plan assets	**(5,455)**	(5,289)	**–**	–
Net amortization and deferral	**1,817**	2,928	**(19)**	(31)
Net periodic benefit cost	**$ 3,673**	$ 4,944	**$ 223**	$ 83

AgBank District previously disclosed in its financial statements for the year ended December 31, 2010, that it expected to contribute $14.1 million to its pension plans in 2011. As of March 31, 2011, $1.5 million of contributions have been made to the pension and postretirement plans. AgBank and Associations presently anticipate contributing an additional $12.8 million to fund its pension and postretirement plans in 2011 for a total of $14.3 million.

NOTE 7 – FAIR VALUE MEASUREMENTS

Authoritative guidance defines fair value as the exit price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 of the 2010 Annual Report for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement Using			
March 31, 2011 - Unaudited	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:				
Investments available-for-sale				
U.S. Treasury securities	**$ –**	**$ 552,040**	**$ –**	**$ 552,040**
Mortgage-backed securities				
U.S. Government guaranteed	**–**	**2,037,967**	**–**	**2,037,967**
Private Label - FHA/VA reperformers	**–**	**–**	**1,016,474**	**1,016,474**
Federal agency guaranteed	**–**	**459,503**	**–**	**459,503**
Non-agency	**–**	**–**	**183,017**	**183,017**
FDIC insured bank debt	**–**	**163,233**	**–**	**163,233**
Non-agency asset-backed securities	**–**	**–**	**76,406**	**76,406**
Farmer Mac securities	**–**	**–**	**405,346**	**405,346**
Derivative assets	**–**	**67,391**	**–**	**67,391**
Assets held in nonqualified benefits trust	**25,186**	**–**	**–**	**25,186**
Total assets	**$ 25,186**	**$ 3,280,134**	**$ 1,681,243**	**$ 4,986,563**
Liabilities:				
Derivatives liabilities	**–**	**3,982**	**–**	**3,982**
Collateral liabilities	**490**	**–**	**–**	**490**
Total liabilities	**$ 490**	**$ 3,982**	**$ –**	**$ 4,472**

December 31, 2010	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale				
U.S. Treasury securities	$ –	$ 552,111	$ –	$ 552,111
Mortgage-backed securities				
U.S. Government guaranteed	–	1,880,625	–	1,880,625
Private Label - FHA/VA reperformers	–	–	1,045,201	1,045,201
Federal agency guaranteed	–	469,315	–	469,315
Non-agency	–	–	199,429	199,429
FDIC insured bank debt	–	178,418	–	178,418
Non-agency asset-backed securities	–	–	82,120	82,120
Farmer Mac securities	–	–	424,431	424,431
Derivative assets	–	78,218	–	78,218
Assets held in nonqualified benefits trust	24,589	–	–	24,589
Total assets	$ 24,589	$ 3,158,687	$ 1,751,181	$ 4,934,457
Liabilities:				
Derivative liabilities	$ –	$ 2,938	$ –	$ 2,938
Collateral liabilities	380	–	–	380
Total liabilities	$ 380	$ 2,938	$ –	$ 3,318

During the first three months of 2011, the District recorded no transfers in or out of Levels 1, 2, or 3.

The table below represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using at least one significant input that is not observable (Level 3).

	Mortgage-backed securities	**Total Fair Value Measurement Asset-backed securities**	**Farmer Mac securities**	**Derivative Liabilities**
Balance at December 31, 2010	**$ 1,244,630**	**$ 82,120**	**$ 424,431**	**$ –**
Total gains or (losses) realized/unrealized:				
Included in earnings	**(3,668)**	**–**	**–**	**–**
Included in other comprehensive income	**7,419**	**(1,940)**	**(527)**	**–**
Settlements	**(48,890)**	**(3,774)**	**(18,558)**	**–**
Balance at March 31, 2011	**$ 1,199,491**	**$ 76,406**	**$ 405,346**	**$ –**
The amount of gains or (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at March 31, 2011	**$ (3,668)**	**$ –**	**$ –**	**$ –**
Balance at December 31, 2009	$ 1,406,259	$ 117,715	$ 492,724	$ 249
Total gains or (losses) realized/unrealized:				
Included in other comprehensive income	20,993	2,684	(2,720)	–
Settlements	(63,088)	(4,984)	(19,035)	(249)
Balance at March 31, 2010	$ 1,364,164	$ 115,415	$ 470,969	$ –

There were no gains or losses during the period that were included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities held at March 31, 2010.

Assets and liabilities measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

March 31, 2011 - Unaudited	**Fair Value Measurement Using Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Total Gains/(Losses)**
Assets:					
Loans	**$ –**	**$ –**	**$ 532,206**	**$ 532,206**	**$ (7,139)**
Other property owned	**$ –**	**$ –**	**$ 129,396**	**$ 129,396**	**$ (1,017)**

December 31, 2010					
Assets:					
Loans	$ –	$ –	$ 648,821	$ 648,821	$ (39,559)
Other property owned	$ –	$ –	$ 123,566	$ 123,566	$ (4,387)

There were no liabilities measured at fair value on a non-recurring basis at March 31, 2011 or December 31, 2010.

Valuation Techniques

As more fully discussed in the Notes of the 2010 Annual Report, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used for AgBank and Associations' assets and liabilities subject to fair value measurement. For a more complete description, see Notes 2 and 15 of the 2010 annual report.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. This District does not hold any investment securities that would be Level 1. If quoted prices are not available in an active market, the fair value of a security is estimated using a pricing model with observable inputs or quoted prices for a similar security received from a pricing service and is classified as Level 2. For the District, this would include U.S. Treasury securities, federal agency mortgage-backed securities, U.S. government guaranteed mortgage-backed securities and FDIC insured bank debt held by AgBank.

Where there is limited activity or less transparency around inputs to the valuation, securities are classified as Level 3. For these Level 3 securities, the District utilizes a pricing service, an independent third-party service provider, or a widely recognized asset liability management tool. Necessary inputs to the asset liability management tool include yield curves, volatility, prepayment speeds, and market spreads. Securities classified within Level 3 include private label FHA/VA reperformer mortgage-backed securities, non-agency mortgage-backed securities, asset-backed securities, and agricultural mortgage-backed securities issued by Farmer Mac.

It has been determined that the District's asset-backed securities and non-agency mortgage-backed securities exist in inactive markets under the current economic environment. As there is no observable market for the asset-backed securities and the non-agency securities, the District's valuation process is an average of a valuation determined by a third party service provider using discounted cash flows and a pricing service quote. The private label FHA/VA reperformer mortgage-backed securities are valued by using the asset liability management tool and broker quotes where at least one input is not observable. Farmer Mac securities are backed by agricultural mortgage loans for which there are no available quotes. Significant inputs that are observable include the LIBOR yield curve and volatility. Significant inputs that are not observable include market spreads and prepayment speeds which are derived by correlations and assumptions. Therefore, these securities are classified as Level 3.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange and the District does not hold exchange-traded derivatives.

AgBank's derivative positions are generally over-the-counter issuances and are valued using internally developed models that use as their basis readily observable market parameters such as benchmark interest rate curves, volatility and other inputs that are observable directly or indirectly in the marketplace. These derivatives are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options.

AgBank may also hold derivatives that are valued based upon models with at least one significant unobservable market parameter and that are normally traded less actively or have one-sided trade activity. These are classified within Level 3 of the valuation hierarchy.

Assets held in nonqualified benefits trust

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted asset values that are observable in the marketplace.

Collateral liabilities

Substantially all derivative contracts are supported by bilateral collateral agreements with counterparties which require the posting of collateral in the event certain dollar thresholds of credit exposure are reached. The market value of collateral liabilities where cash has been received is its face value which approximates fair value.

Loans – Fair Value on a Nonrecurring Basis

For certain impaired loans, the fair value is based upon the underlying collateral as these were collateral-dependent loans for which real estate is the collateral. 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 real estate less estimated costs to sell is less than the principal balance of the loan, a specific reserve is established and the net loan is reported at its fair value.

For loans acquired through an Association merger, the 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. Fair value of loans in nonaccrual status is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows.

Other Property Owned

Other property owned is generally classified as Level 3. Other property owned is recorded at fair value, which is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 8 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the District's financial instruments.

	March 31, 2011		December 31, 2010	
Unaudited	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Loans and notes receivable, net	**$ 23,559,274**	**$ 23,657,611**	$ 24,188,681	$ 24,388,226
Cash	**$ 197,225**	**$ 197,225**	$ 330,341	$ 330,341
Investment securities	**$ 5,142,803**	**$ 5,148,936**	$ 5,095,139	$ 5,103,139
Derivative assets	**$ 67,391**	**$ 67,391**	$ 78,218	$ 78,218
Assets held in nonqualified benefits trust	**$ 25,186**	**$ 25,186**	$ 24,589	$ 24,589
Financial liabilities:				
Systemwide debt securities	**$ 22,990,724**	**$ 23,398,710**	$ 23,881,678	$ 24,340,698
Other bonds and notes	**$ 951,567**	**$ 951,573**	$ 804,248	$ 804,164
Derivative liabilities	**$ 3,982**	**$ 3,982**	$ 2,938	$ 2,938
Collateral liabilities	**$ 490**	**$ 490**	$ 380	$ 380
Unrecognized financial instruments:				
Commitments to extend credit	**$ –**	**$ 819**	$ –	$ 707
Standby letters of credit	**$ –**	**$ 1,451**	$ –	$ 1,293

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

Loans and Notes Receivable: Because no active market exists for AgBank's and the Associations' loans, fair value is estimated by discounting the expected future cash flows using AgBank's and/or the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Since the discount rates are based on the District's loan rates as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining the fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. Fair value of loans in nonaccrual status is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows.

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

Investment Securities: If an active market exists, the fair value is derived from multiple sources, including nationally recognized pricing providers and AgBank's internal valuation model. For those securities for which an active market does not exist, the fair value is determined as described in Note 7.

Assets held in nonqualified benefits trust: These assets relate to deferred compensation and supplemental retirement plans. As discussed in Note 7, the fair value of these assets is determined by quoted net asset values.

Systemwide Debt Securities and Other Bonds and Notes: Bonds and notes at times may not be regularly traded; thus, quoted market prices may not be available. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between System debt instruments and Treasury issues.

Derivative Financial Instruments: The fair value of derivative financial instruments (asset and liability) is the estimated amount that would be received or paid to replace the agreement at the reporting date, considering current interest rates and the current credit worthiness of the counterparties.

Collateral Liabilities: The carrying value is the cash collateral received from derivative counterparties and is a reasonable estimate of fair value.

Commitments to extend credit and Standby letters of credit: The fair value of commitments reflects the estimated gain/(loss) assuming undrawn loan commitments are recorded as new loan volume on the fair value measurement date, and considers the difference between the current levels of interest rates and the committed rates. The fair value of the standby letters of credit represents discounted fee income cash flows. The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The District maintains an overall interest rate risk management strategy that incorporates the use of derivative products by AgBank to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. AgBank's goals are to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by AgBank's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged floating-rate assets and liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by AgBank's gains and losses on the derivative instruments that are linked to these hedged assets and liabilities. AgBank considers the strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

AgBank enters into derivative transactions, particularly interest rate swaps, to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. AgBank may also enter into derivatives with their customers as a service to enable them to transfer, modify or reduce their interest rate risk by transferring this risk to AgBank. AgBank substantially offsets this risk by concurrently entering into offsetting agreements with non-System institutional counterparties. Interest rate swaps allow AgBank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to AgBank if floating rate borrowings were made directly. Under interest rate swap arrangements, AgBank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index. A substantial amount of the District's assets are interest-earning assets (principally loans and investments) that tend to be medium-term floating-rate instruments while the related interest-bearing liabilities tend to be short- or medium-term fixed rate obligations. Given this asset-liability mismatch, interest rate swaps in which AgBank pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on AgBank's net interest income. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, AgBank also enters into swaps in which it receives the floating rate and pays the fixed rate (pay fixed swaps) when necessary to reduce its net position.

AgBank also purchases interest rate options, such as caps, in order to reduce the impact of rising interest rates on floating-rate debt, and floors, in order to reduce the impact of falling interest rates on floating-rate assets. Additionally, foreign exchange derivatives are used to protect AgBank from changes in foreign currency values between a borrower advance and borrower payment.

The notional value of primary types of derivative instruments used and the amount of activity during the period is summarized in the following table:

(in millions)	Receive-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2011	$ 1,385.0	$ 1,285.0	$ 2,670.0
Additions	50.0	75.0	125.0
Maturities/amortization	(50.0)	(25.0)	(75.0)
Terminations	(100.0)	–	(100.0)
Balance at March 31, 2011	$ 1,285.0	$ 1,335.0	$ 2,620.0

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

To minimize the risk of credit losses, AgBank selects only counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing and levels of exposure to individual counterparties. AgBank does not anticipate nonperformance by any of these counterparties. AgBank enters into master agreements that contain netting provisions. These provisions allow AgBank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. Derivative contracts are reflected in the financial statements on a gross basis regardless of the netting agreement. Another way AgBank minimizes the risk of credit losses from derivatives is that derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to the other one are reached, which thresholds may vary depending on the counterparty's credit rating. At March 31, 2011, AgBank's exposure to counterparties, net of collateral, was $54.0 million and $58.2 million at December 31, 2010. At March 31, 2011, AgBank held cash of $490 thousand and investment securities of $19.4 million as collateral with respect to these arrangements. At December 31, 2010, AgBank held cash collateral of $380 thousand and investment securities of $25.2 million. As of March 31, 2011 and December 31, 2010, AgBank did not owe any counterparties, so no counterparties had exposure to AgBank. Accordingly, AgBank was not required to post collateral as of March 31, 2011 or December 31, 2010.

AgBank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of AgBank's asset/liability and treasury functions. AgBank's ALCO is responsible for approving hedging strategies that are developed within parameters established by AgBank's Board of Directors. The resulting hedging strategies are then incorporated into AgBank's overall interest rate risk management strategies.

The table below includes details of the derivative assets and derivative liabilities reflected on the District's Combined Statement of Condition. AgBank does not apply master netting agreements for financial statement disclosure.

	March 31, 2011		December 31, 2010	
	Assets Fair Value	Liabilities Fair Value	Assets Fair Value	Liabilities Fair Value
Derivatives designated as hedging instruments under GAAP:				
Receive-fixed swaps	**$ 58,229**	**$ 3,982**	$ 68,190	$ 2,938
Interest rate caps	**9,162**	−	10,028	−
Total derivatives	**$ 67,391**	**$ 3,982**	$ 78,218	$ 2,938

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. The District includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the three months ended March 31, 2011 was $11.0 million, while the amount of the gain on the hedged Systemwide Debt Securities was $11.0 million. Gains and losses on derivatives that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

The following table sets forth the effect of the fair value derivative instruments on the District's Combined Statement of Income for the period ended March 31:

Derivatives – Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized in Statement of Income	Amount of Gain or (Loss) Recognized in the Statement of Income	
		2011	2010
Receive-fixed swaps	Interest Expense	**$ (12)**	$ 57
Total		**$ (12)**	$ 57

Cash Flow Hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivatives representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. The following table includes the effect of the cash flow derivative instruments on the District's Combined Statement of Income for the period ended March 31:

Derivatives – Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or Loss Reclassification from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	
	2011	2010		**2011**	2010
Interest rate caps	**$ (2,200)**	$ (7,888)	Interest Expense	**$ (372)**	$ (1,101)
Forward starting swaps	−	−	Interest Expense	**87**	117
Total	**$ (2,200)**	$ (7,888)		**$ (285)**	$ (984)

The District did not recognize any gain or loss into income on derivatives related to the ineffective portion on its cash flow hedging relationships.

Derivatives not Designated as Hedges

For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings. The following table includes the effect of the derivative instruments not designated as hedging instruments on the District's Combined Statement of Income for the period ended March 31:

Derivatives Not Designated as Hedging Instruments	Location of Loss Recognized in Statement of Income	Amount of Loss Recognized in the Statement of Income	
		2011	2010
Foreign exchange contracts	Other noninterest income	**$ –**	$ (9)
Total		**$ –**	$ (9)

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The District has various contingent liabilities and commitments outstanding. While primarily liable for its portion of Systemwide Debt Securities, AgBank is jointly and severally liable for the Systemwide Debt Securities of the other Farm Credit System (System) banks. The total Systemwide Debt Securities of the System at March 31, 2011 were $189.64 billion.

At March 31, 2011, the assets of the Farm Credit System Insurance Fund totaled $3.27 billion. In the event of a default by a bank on an insured debt obligation for which the bank is primarily liable, amounts in the Insurance Fund must be expended to the extent necessary to insure the timely payment of principal and interest on the debt obligation before the provisions providing for joint and several liability of the System Banks (excluding the associations) can be invoked.

AgBank and Associations may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers and to manage the exposure to interest-rate risk. These financial instruments include commitments to extend credit and involve, to varying degrees, credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At March 31, 2011, $7.52 billion of commitments to extend credit were outstanding.

AgBank and Associations also participate in standby letters of credit to satisfy the financing needs of their borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At March 31, 2011 the District had $132.4 million of standby letters of credit.

At March 31, 2011, various lawsuits were pending against certain Associations in which claims for monetary damages are asserted. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions would not be significant in relation to the combined financial position of AgBank, Associations, and AgVantis.

NOTE 11 – SUBSEQUENT EVENTS

The District entities have evaluated subsequent events through May 10, 2011, which is the date the financial statements were available to be issued, and no material subsequent events were identified.

NOTE 12 - BANK ONLY FINANCIAL DATA

Condensed financial information of AgBank follows:

STATEMENT OF CONDITION

	March 31, 2011 Unaudited	December 31, 2010
Loans to Associations	**$ 18,339,816**	$ 19,272,988
Loans to others	**926,117**	917,259
Less: allowance for loan losses	**2,443**	2,504
Net loans	**19,263,490**	20,187,743
Cash and investment securities	**4,929,472**	4,942,674
Other assets	**215,052**	255,601
Total assets	**$ 24,408,014**	$ 25,386,018
Systemwide debt securities	**$ 22,990,724**	$ 23,881,678
Other liabilities	**129,971**	137,640
Total liabilities	**23,120,695**	24,019,318
Preferred stock	**225,000**	225,000
Stock	**633,180**	631,379
Retained earnings	**644,018**	717,942
Accumulated other comprehensive income/(loss)	**(214,879)**	(207,621)
Total shareholders' equity	**1,287,319**	1,366,700
Total liabilities and shareholders' equity	**$ 24,408,014**	$ 25,386,018

STATEMENT OF INCOME

Unaudited		For the three months ended March 31 2011		2010
Interest income		**$ 133,593**		$ 157,889
Interest expense		**98,598**		126,618
Net interest income		**34,995**		31,271
Provision for loan losses/(Loan loss reversals)		**603**		(321)
Noninterest income		**9,342**		13,455
Salaries and employee benefits	**4,364**		4,383	
Occupancy and equipment	**625**		635	
Insurance fund premium	**(116)**		(268)	
Other operating expenses	**3,467**		2,180	
Concession expense write-off on called debt	**506**		2,311	
Noninterest expense		**8,846**		9,241
Loss on investment impairments		**4,253**		–
Net income		**$ 30,635**		$ 35,806

Part of the Farm Credit System

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