

2011

**SECOND
QUARTER**



U.S. AGBANK DISTRICT

U.S. AgBank District

CORPORATE ADDRESS

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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 six months ended June 30, 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 six months 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.

The uncertainty related to the United States debt ceiling limit has been cause for concern. The financial markets continue to struggle with the uncertainty of the European debt crisis and ongoing economic weakness in the U.S. Fortunately, we continue to see strong investor demand for System debt. However, we anticipate that the markets will experience increased volatility in rates and spreads in the coming months and it is possible that access to specific types of funding may be impacted.

DISTRICT HIGHLIGHTS

Net income was \$255.9 million during the first six months of 2011 and \$122.2 million during the second quarter of 2011. Total assets at June 30, 2011 decreased 2.1% to \$29.69 billion compared with total assets of \$30.33 billion at December 31, 2010. As of June 30, 2011, shareholders' equity increased \$233.2 million to \$5.40 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), our regulator. On June 22, 2011, the FCA granted preliminary approval of the merger, subject to certain conditions. The Banks have submitted the merger proposal to shareholders for their approval, with votes to be tabulated at a special meeting on September 7, 2011. Provided shareholders authorize the transaction and final FCA approval is received, the merger would be effective on January 1, 2012.

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 operations 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 \$66.4 billion and capital of \$4.7 billion at June 30, 2011.

We believe the merger will create significant benefits for the combined bank and its customer owners. Full details about the transaction were provided in disclosure materials sent to stockholders. Information and announcements about the merger are also available at the AgBank website or at www.usagbankcobankmerger.com.

American AgCredit, ACA and Farm Credit of the Mountain Plains, ACA, two associations in our District, have entered into a Letter of Intent to merge with a target date of January 1, 2012.

RESULTS OF OPERATIONS

The following information and the accompanying combined financial statements address our financial performance in more detail. The year-to-date June 30, 2011 results of operations are not necessarily indicative of the results to be expected for the entire year.

Our net income for the first six months of 2011 was \$255.9 million, a decrease of \$6.7 million, or 2.5%, as compared with net income of \$262.6 million for the first six months of 2010. The decrease in 2011 as compared with the same period in 2010 is due largely to a significant decrease in noninterest income and an increase in noninterest expenses.

During the second quarter of 2011, we recorded net income of \$122.2 million, an increase of \$2.4 million, or 2.0%, from net income of \$119.8 million for the second quarter of 2010. The increase in 2011 is primarily due to a reduction in the provision for loan losses and an increase in both net interest income and noninterest income compared with the same time period in 2010.

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

	Q2 2011 Versus Q2 2010	YTD June 2011 Versus YTD June 2010
Net income, prior period	\$ 119,807	\$ 262,605
Increase/(Decrease) to net income from changes in:		
Net interest income	4,807	16,142
Provision for loan losses	8,971	20,867
Noninterest income	5,070	(22,571)
Noninterest expense	(14,878)	(19,943)
Provision for income taxes	(1,576)	(1,175)
Total increase/(decrease) in net income	2,394	(6,680)
Net income, current period	\$ 122,201	\$ 255,925

Net Interest Income

During the six months ended June 30, 2011, we recorded net interest income of \$403.4 million, an increase of \$16.2 million from \$387.2 million for the six months ended June 30, 2010. This was a result of the increase in interest rate spread during the first six months of 2011 of 15 basis points to 2.53%, as compared with interest rate spread of 2.38% during the first six 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 with the issuance of additional floating rate debt. 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 6 basis points.

Our net interest income for the second quarter increased \$4.8 million to \$201.6 million as compared with the second quarter of 2010 for similar reasons as discussed above.

Provision for Loan Losses/(Loan Loss Reversals)

We recorded net provision for loan losses across the District totaling \$10.2 million during the first six months of 2011 compared with \$31.1 million for the same period in 2010. Thirteen Associations and AgBank recorded provisions for loan losses of \$14.0 million during the first six months of 2011 with twelve Associations recording loan loss reversals of \$3.8 million. The provisions for loan losses recorded during the first six months of 2011 were primarily due to charge-offs associated with a nursery loan and a dairy loan and credit deterioration in specific loans across the District. Provisions for loan losses recorded during the first six months 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 forestry, ethanol, and nursery industries.

Noninterest Income

In the first six months of 2011, we recorded noninterest income of \$43.8 million, compared with \$66.3 million for the first six months of 2010. The net decrease of \$22.5 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 \$4.0 million primarily due to reinvestment fees charged as a result of prepayments and payoffs.

During the second quarter of 2011, we recorded \$18.4 million in noninterest income, compared with \$13.4 million in the second quarter of 2010. The increase quarter over quarter was primarily due to increased mineral income related to leasing bonuses and increased loan fees.

Noninterest Expense

Noninterest expense for the first six months ended June 30, 2011 was \$178.0 million, an increase of \$19.9 million, or 12.6%, from \$158.1 million for the six months ended June 30, 2010. During the first six months of 2011, impairment losses of \$14.3 million were recognized for the credit-related component of other-than-temporary impairments on certain investment securities as compared with \$2.6 million recognized in the first six months of 2010.

Total salaries and employee benefits increased \$2.7 million for the first six months of 2011 compared with the first six months of 2010 due to annual salary adjustments, additional staff, and incentive programs. Merger implementation costs of \$2.2 million were recorded in the first six months of 2011 related to the anticipated AgBank merger with CoBank. These expenses were primarily related to professional fees, retention incentives and attorney fees. Losses on other property owned increased \$5.0 million to \$5.8 million for the first six months of 2011 due to increased valuation losses, losses on the sales of properties and operating expenses as a result of the substantial increase in acquired properties during 2010.

Insurance fund premiums paid to the Farm Credit System Insurance Corporation increased \$917 thousand compared with the same period in 2010. Premium rates were 6 basis points on System debt during the first six months of 2011 compared with 5 basis points in the first six months of 2010.

During the six months ended June 30, 2011, we recognized accelerated debt concession expense of \$1.1 million on debt that was called and refinanced at lower rates which was lower by \$5.3 million than the same period in 2010. Calling and replacing debt results in lower interest expense in the future. Due to the interest rate environment, significantly more debt was called and replaced in 2010 than in 2011.

During the second quarter of 2011, we recorded \$91.6 million in noninterest expense, compared with \$76.8 million for the second quarter of 2010. The reasons for the increase were discussed above.

Provision for/(Benefit from) Income Taxes

Provision for income taxes was \$3.0 million for the six months ended June 30, 2011, compared with \$1.8 million for the six months ended June 30, 2010. The increase was primarily due to an increase in taxable income and a decrease in deferred tax assets.

CAPITAL RESOURCES

Shareholders' equity at June 30, 2011 totaled \$5.40 billion, a net increase of \$233.2 million, compared with \$5.17 billion at December 31, 2010. This increase was the result of net income of \$255.9 million offset by net stock retirements of \$2.5 million, patronage distributions and preferred stock dividends of \$18.7 million and an increase in accumulated other comprehensive loss of \$1.5 million.

Accumulated other comprehensive losses related to available-for-sale investments, derivatives, and defined benefit retirement plans totaled \$338.8 million at June 30, 2011, an increase of \$1.5 million compared with year-end 2010. Unrealized loss on investments, the primary component of accumulated other comprehensive losses, increased by \$544 thousand to \$191.7 million due mostly to the decline in market interest rates, offset by the impairment losses that were recognized in the first six months of 2011. Unrealized losses on derivatives increased \$4.5 million to \$12.0 million during the first six months 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 June 30, 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.

	June 30, 2011			December 31, 2010		
	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio
AgBank	20.64%	16.18%	12.51%	20.23%	16.02%	12.34%
Associations	12.42% - 30.47%	12.12% - 30.06%	11.93% - 26.32%	12.48% - 28.35%	11.02% - 27.95%	10.98% - 24.37%
Association weighted avg.	17.67%	16.22%	15.78%	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.

	June 30, 2011	December 31, 2010
Shareholders' equity as a percent of total assets	18.20%	17.04%
Retained earnings as a percent of total shareholders' equity	91.72%	91.27%

LOAN PORTFOLIO

Our loan volume at June 30, 2011 was \$23.71 billion, a net decrease of \$594.8 million compared with \$24.31 billion at December 31, 2010. Short- and intermediate-term volume decreased \$583.6 million and real estate mortgage volume decreased \$50.3 million primarily due to seasonal repayments and a reduction in demand. We continued adherence to prudent underwriting standards, carefully managed loan growth, and have maintained conservative capital ratios, while continuing to fulfill our mission.

Loan Types

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

<i>(dollars in millions)</i>	June 30, 2011	December 31, 2010
Real estate mortgage loans	\$ 14,935.4	\$ 14,985.7
Production and intermediate-term loans	5,131.3	5,714.9
Agribusiness loans to:		
Cooperatives	481.2	461.3
Processing and marketing operations	1,980.2	1,974.4
Farm related businesses	519.1	511.7
Communication loans	106.7	100.4
Energy loans	224.1	245.2
Water and waste disposal loans	19.0	18.0
International loans	72.9	76.1
Rural residential real estate loans	61.5	62.8
Lease receivables	157.3	120.5
Mission-related loans	3.7	3.7
Other financing institution loans	20.0	32.5
Total	\$ 23,712.4	\$ 24,307.2

Included in real estate mortgage loan volume are loans guaranteed by Farmer Mac. These loans were \$622.1 million at June 30, 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.

	June 30, 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. Credit quality has remained sound. 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 95.76% at June 30, 2011 compared with 95.69% at December 31, 2010. The following table presents statistics related to the credit quality of the loan portfolio.

<i>(dollars in millions)</i>	June 30, 2011		December 31, 2010	
Acceptable	\$ 21,619.1	90.12%	\$ 22,060.4	89.86%
OAEM	1,352.4	5.64	1,432.1	5.83
Total acceptable	\$ 22,971.5	95.76%	\$ 23,492.5	95.69%
Substandard	1,008.0	4.20	1,050.1	4.28
Doubtful	8.8	0.04	8.6	0.03
Total	\$ 23,988.3	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 \$14.3 million to \$411.8 million at June 30, 2011, as compared with \$426.1 million at December 31, 2010. Nonaccrual loan volume, the largest component of nonperforming assets, remains low at 1.1% of total loans at June 30, 2011 as compared with 1.2% at December 31, 2010. Nonaccrual loan volume at June 30, 2011 totaled \$270.4 million, a decrease of \$18.6 million, or 6.4%, 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.

<i>(dollars in thousands)</i>	June 30, 2011	December 31, 2010
Real estate mortgage loans	\$ 163,210	\$ 183,488
Production and intermediate-term loans	68,766	74,599
Agribusiness loans	34,684	29,446
Communication loans	618	721
Energy loans	1,695	-
Rural residential real estate loans	385	409
Lease receivables	1,085	346
Total	\$ 270,443	\$ 289,009

Other property owned decreased \$6.5 million to \$109.2 million since December 31, 2010. The decrease was primarily due to sales related to certain properties. The larger properties that remain 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 June 30, 2011 was \$119.3 million, a net increase of \$719 thousand, or 0.6%, from \$118.6 million at December 31, 2010. Impacting the allowance for loan losses was \$10.2 million of provision for loan losses offset by \$9.5 million of net charge-offs recorded during the first six months 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 \$5.52 billion at June 30, 2011 and \$5.29 billion at December 31, 2010, and increased to 23.3% of District loans at June 30, 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 \$155.4 million during the first six months of 2011 to \$3.99 billion due to principal payments on investments, downgrades on four private label FHA/VA reperformer securities 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 16.3% of AgBank's total assets at June 30, 2011 and 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 June 30, 2011, AgBank held liquid assets comprised of cash and eligible marketable investments to be able to fund 153 days of maturing debt. During the first six months of 2011, AgBank held liquid assets to be able to cover maturing debt for an estimated 146 days on average. As of June 30, 2011, AgBank had 32 days coverage in cash and treasuries and an additional 71 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 benefited 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. However, recent U.S. Congressional negotiations aimed at raising the government's borrowing limit and addressing long-term budget imbalances have highlighted the risks to the System relating to the U.S. fiscal situation. These risks include the implied link between the credit rating of the System and the U.S. government given the System's status as a GSE. In July, Moody's Investor Services placed the Aaa bond rating of the U.S. on review for possible downgrade and also placed on review for possible downgrade the Aaa senior debt ratings of GSEs, including the Farm Credit System. On August 2, 2011, Moody's affirmed the Aaa rating for the U.S. government and GSEs, including the Farm Credit System, with the rating outlook revised to negative. In early August, Standard and Poor's Rating Service (S&P) lowered its AAA long-term credit rating on the U.S. to AA+ with a negative outlook; and likewise, lowered the AAA long-term rating of the System and other GSEs to AA+ with a negative outlook. The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities, but the rating is constrained by the long-term sovereign rating on the U.S. The ratings on individual System Banks rated by S&P, including AgBank, were not affected. We have had continued access to funding at competitive rates and terms necessary to support our lending and business operations; however, it is possible that there will be increased volatility in rates and spreads in the coming months due to the reduction in the System's credit rating. 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:

	June 30, 2011			December 31, 2010		
	Amount	Weighted Interest Rate	Weighted Maturity	Amount	Weighted Interest Rate	Weighted Maturity
Bonds	\$ 20,952,881	1.69%	2.94 years	\$ 21,242,459	1.82%	3.03 years
Discount notes	1,903,932	0.21	100 days	2,588,951	0.24	112 days
Medium-term notes	45,192	5.34	2.05 years	50,268	5.49	2.31 years
Total	\$ 22,902,005	1.58%	2.72 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 June 30, 2011, AgBank's investments were 23.6% 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 June 30, 2011, approximately 80% 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 8.6% 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 4.3% 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:

Eligible Investments for liquidity	June 30, 2011		December 31, 2010	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
U.S. Treasury securities	\$ 551,839	14.4%	\$ 552,111	14.2%
Mortgage-backed securities (MBS)				
U.S. Government guaranteed (GNMA)	2,000,820	52.3	1,880,625	48.2
Federal Agency guaranteed (FNMA, FHLMC)	499,789	13.1	469,315	12.0
Private Label – FHA/VA reperformers with federal agency wrap	329,254	8.6	354,320	9.1
Private Label – FHA/VA reperformers without federal agency wrap	206,366	5.4	378,839	9.7
Non-agency	45,318	1.2	54,957	1.4
Total MBS	\$ 3,081,547	80.6%	\$ 3,138,056	80.4%
FDIC insured bank debt	163,158	4.3	178,418	4.6
Non-agency home equity asset-backed securities (ABS)	25,129	0.7	29,960	0.8
Total eligible investment securities	\$ 3,821,673	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	June 30, 2011		December 31, 2010	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Available-for-sale:				
Farmer Mac securities	\$ 396,094	31.7%	\$ 424,431	35.5%
Ineligible securities for liquidity:				
Private Label MBS – FHA/VA reperformers without federal agency wrap	443,043	35.5	312,042	26.1
Non-agency MBS	124,895	10.0	144,472	12.1
Non-agency home equity ABS	42,845	3.4	52,160	4.3
Total available-for-sale	\$ 1,006,877	80.6%	\$ 933,105	78.0%
Held-to-maturity:				
Farmer Mac securities	\$ 236,747	19.0%	257,528	21.5%
Mission-related investments	5,412	0.4	5,961	0.5
Total held-to-maturity	\$ 242,159	19.4%	\$ 263,489	22.0%
Total mission-related and other investments	\$ 1,249,036	100.0%	\$ 1,196,594	100.0%

Additional Investment Information

At June 30, 2011, AgBank held eligible and ineligible non-agency home equity asset-backed securities with a fair value of \$68.0 million that were primarily first lien securities collateralized by subprime home equity mortgages. These securities are 1.3% of the total investment portfolio. As of June 30, 2011, asset-backed securities with a fair value of \$33.2 million have been downgraded below investment grade (below BBB) by all rating agencies.

At June 30, 2011, AgBank held eligible and ineligible non-agency mortgage-backed securities with a fair value of \$170.2 million, which are 3.4% 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 \$124.9 million were downgraded below investment grade by all rating agencies as of June 30, 2011.

AgBank also held private label FHA/VA reperformer securities with a fair value of \$649.4 million at June 30, 2011 where the underlying loans are estimated to be 90% government guaranteed or insured but have no further guarantees by FNMA or FHLMC or other federal agency. The government guarantee or insurance is based upon the loan collateral meeting required FHA or VA underwriting standards and documentation requirements. These securities are credit enhanced by minor amounts of subordination and are 12.8% of our total portfolio. In one security, certain loans totaling \$12.0 million were determined to be lacking appropriate documentation for the FHA insurance and therefore are not eligible for the government guarantee or insurance. During the first six months of 2011, four additional FHA/VA securities were downgraded below AAA and became ineligible. FHA/VA reperformer securities with a fair value of \$443.0 million have been downgraded below AAA by all rating agencies as of June 30, 2011.

Other-Than-Temporarily Impaired Investments

Due to the deterioration of the underlying collateral, AgBank recognized \$14.3 million of additional other-than-temporarily impaired credit-related losses on eight investment securities during the first six months of 2011. Each of these securities had previously recognized other-than-temporary impairment. During the first six months of 2010, AgBank recognized \$2.6 million of additional other-than-temporarily impaired credit-related losses on two non-agency mortgage-backed securities.

Unrealized Investment Losses

The investment securities had a gross unrealized loss position of \$211.8 million at June 30, 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 nearly \$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 June 30, 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 June 30, 2011, AgBank has gross credit exposure of \$79.4 million to 7 counterparties. AgBank held \$230 thousand of cash and \$25.1 million of investment securities as collateral on that exposure. AgBank's exposure net of collateral is \$54.1 million.

In cases where we would owe the counterparty on early termination of the derivative, credit risk is not created. As of June 30, 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 June 30, 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.

August 9, 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)

	June 30, 2011 Unaudited	December 31, 2010
ASSETS		
Loans	\$ 23,712,395	\$ 24,307,238
Less: Allowance for loan losses	119,276	118,557
Net loans	23,593,119	24,188,681
Cash	278,707	330,341
Investment securities	5,070,709	5,095,139
Accrued interest receivable	293,218	266,117
Other property owned	109,157	115,693
Premises and equipment, net	138,309	134,880
Derivative assets	72,905	78,218
Other assets	132,348	124,029
Total assets	\$ 29,688,472	\$ 30,333,098
LIABILITIES		
Systemwide debt securities	\$ 22,902,005	\$ 23,881,678
Other bonds and notes	957,635	804,248
Accrued interest payable	89,199	96,268
Patronage refunds payable	5,627	108,837
Derivative liabilities	1,021	2,938
Other liabilities	331,106	270,488
Total liabilities	24,286,593	25,164,457
Commitments and Contingencies (Note 10)		
SHAREHOLDERS' EQUITY		
Protected stock	\$ 215	\$ 265
Preferred stock	541,062	543,192
Stock and participation certificates	38,400	38,646
Unallocated retained earnings	4,954,821	4,717,655
Additional paid in capital	206,226	206,226
Accumulated other comprehensive income/(loss), net of tax	(338,845)	(337,343)
Total shareholders' equity	5,401,879	5,168,641
Total liabilities and shareholders' equity	\$ 29,688,472	\$ 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)

Unaudited	For the three months ended June 30		For the six months ended June 30	
	2011	2010	2011	2010
INTEREST INCOME				
Loans	\$ 280,286	\$ 293,145	\$ 562,766	\$ 584,937
Investment securities	15,954	23,690	33,229	49,799
Total interest income	296,240	316,835	595,995	634,736
INTEREST EXPENSE	94,634	120,036	192,605	247,488
Net interest income	201,606	196,799	403,390	387,248
Provision for loan losses	3,702	12,673	10,190	31,057
Net interest income after provision for loan losses	197,904	184,126	393,200	356,191
NONINTEREST INCOME				
Loan and prepayment fee income	9,272	6,868	16,708	12,702
Financially related services income	1,391	1,348	4,454	3,771
Mineral income	5,321	2,428	8,196	5,199
Insurance fund distribution	—	—	—	29,783
Other noninterest income	2,460	2,730	14,397	14,871
Total noninterest income	18,444	13,374	43,755	66,326
NONINTEREST EXPENSE				
Salaries and employee benefits	48,331	46,303	98,764	96,041
Occupancy and equipment	4,646	4,372	9,334	8,782
Other operating expenses	17,091	16,877	34,823	33,061
Supervisory expense	2,679	2,412	5,419	4,874
Merger-implementation costs	1,414	3	2,192	96
Losses/(Gains) on other property owned, net	3,707	(40)	5,780	786
Insurance fund premium	3,148	117	6,366	5,449
Concession expense write-off on called debt	591	4,135	1,097	6,446
Total other-than-temporary impairment loss	7,048	—	7,402	—
Portion of loss reclassified from other comprehensive income	<u>2,976</u>	<u>2,574</u>	<u>6,875</u>	<u>2,574</u>
Net impairment loss recognized in earnings	10,024	2,574	14,277	2,574
Total noninterest expense	91,631	76,753	178,052	158,109
Income before income taxes	124,717	120,747	258,903	264,408
Provision for income taxes	2,516	940	2,978	1,803
Net income	\$ 122,201	\$ 119,807	\$ 255,925	\$ 262,605

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			255,925			
Change in unrealized losses on investments available-for-sale, net					(14,821)	
Net impairment loss recognized in earnings					14,277	
Change in unrealized losses on derivatives					(4,546)	
Change in retirement obligation					3,588	
Total comprehensive income						254,423
Stock and participation certificates issued	155,269	1,861				157,130
Stock and participation certificates retired	(157,492)	(2,157)				(159,649)
Cash patronage refunds			(9,118)			(9,118)
Preferred stock cash dividends			(9,548)			(9,548)
Stock dividends	93		(93)			-
Balance at June 30, 2011	\$ 541,062	\$ 38,615	\$ 4,954,821	\$ 206,226	\$ (338,845)	\$ 5,401,879
Balance at December 31, 2009	\$ 486,360	\$ 39,237	\$ 4,339,177	\$ 206,226	\$ (456,412)	\$ 4,614,588
Comprehensive Income						
Net income			262,605			
Change in unrealized losses on investments available-for-sale, net					84,111	
Net impairment loss recognized in earnings					2,574	
Change in unrealized losses on derivatives					(8,507)	
Change in retirement obligation					5,803	
Total comprehensive income						346,586
Stock and participation certificates issued	177,492	1,857				179,349
Stock and participation certificates retired	(126,082)	(1,958)				(128,040)
Cash patronage refunds			(6,482)			(6,482)
Preferred stock cash dividends			(9,340)			(9,340)
Stock dividends	56		(56)			-
Balance at June 30, 2010	\$ 537,826	\$ 39,136	\$ 4,585,904	\$ 206,226	\$ (372,431)	\$ 4,996,661

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

COMBINED STATEMENT OF CASH FLOWS

U.S. AgBank District

(Dollars in thousands)

Unaudited	For the six months ended June 30	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 255,925	\$ 262,605
Adjustments to reconcile net income to cash provided by/(used in) operating activities:		
Depreciation on premises and equipment	5,220	4,795
Provision for loan losses	10,190	31,057
Amortization of premium on debt instruments	(4,309)	(1,995)
Amortization of premium/(discount) on investments and acquired loans	2,880	(7,276)
Loss on impaired investments	14,277	2,574
Net write down and sales of other property owned	6,341	3,342
Gains on the sale of premises and equipment	(245)	(525)
Derivative hedging activities	(829)	(2,414)
Change in assets and liabilities:		
Increase in accrued interest receivable	(28,036)	(22,225)
(Increase)/Decrease in other assets	(8,319)	36,152
Decrease in accrued interest payable	(6,872)	(24,995)
Decrease in other liabilities	(11,286)	(36,725)
Total adjustments	(20,988)	(18,235)
Net cash provided by operating activities	234,937	244,370
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan principal collected, net	573,481	263,461
Investments available-for-sale:		
Purchases	(673,705)	(583,468)
Proceeds from maturities and principal payments	737,128	897,139
Investments held-to-maturity:		
Proceeds from maturities and principal payments	21,327	21,047
Expenditures for premises and equipment, net	(8,404)	(5,894)
Proceeds from sales of/(Expenditures on) other property owned	9,481	(2,576)
Decrease in notes receivable	3	1,278
Net cash provided by investing activities	659,311	590,987
CASH FLOWS FROM FINANCING ACTIVITIES:		
Systemwide debt retired, net	(978,206)	(802,973)
Increase in other bonds and notes	156,720	37,184
Patronage distributions paid	(112,329)	(73,156)
Cash dividends paid	(9,548)	(9,340)
Stock issued	157,130	179,349
Stock retired	(159,649)	(128,040)
Net cash used in financing activities	(945,882)	(796,976)
Net (decrease)/increase in cash	(51,634)	38,381
Cash at beginning of period	330,341	255,927
Cash at end of period	\$ 278,707	\$ 294,308

(continued)

COMBINED STATEMENT OF CASH FLOWS (continued from previous page)

U.S. AgBank District

(Dollars in thousands)

Unaudited	For the six months ended June 30	
	2011	2010
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Financed sales of other property owned	\$ 26,885	\$ 2,052
Loan amounts transferred to other property owned	36,171	12,783
Loan amounts charged off	10,043	15,385
Unsettled investment transactions	75,492	—
Patronage refunds transferred to other liabilities from:		
Unallocated retained earnings	10,136	6,766
Preferred stock cash dividends declared	9,548	9,340
Stock dividends declared	93	56
Change in unrealized losses in other comprehensive income	(1,502)	83,981
SUPPLEMENTAL INFORMATION:		
Interest paid	199,886	272,791
Income taxes paid	1,453	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 second 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), our regulator. On June 22, 2011, the FCA granted preliminary approval of the merger, subject to certain conditions. The Banks have submitted the merger proposal to shareholders for their approval, with votes to be tabulated at a special meeting on September 7, 2011. Provided shareholders authorize the transaction and final FCA approval is received, the merger would be effective on January 1, 2012.

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 operations 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 \$66.4 billion and capital of \$4.7 billion at June 30, 2011.

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements:

- A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income.
- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

This guidance is to be applied retrospectively. For public entities, it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities.)
2. Aligning the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets.

3. Clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy.
4. An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks.
5. Clarifying that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance.
6. Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used in a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

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

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The Bank and Associations are currently evaluating the impact of adoption of this Standard on the financial condition or results of operations. The adoption will result in additional disclosures.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for 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. 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 are 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 or results of operations but did result 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 six month period ended June 30, 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:

	June 30, 2011	December 31, 2010
Real estate mortgage	\$ 14,935,356	\$ 14,985,673
Production and intermediate-term	5,131,349	5,714,880
Agribusiness:		
Loans to cooperatives	481,202	461,307
Processing and marketing	1,980,205	1,974,472
Farm related business	519,097	511,725
Communication	106,678	100,374
Energy	224,093	245,219
Water and waste disposal	19,024	18,000
International	72,916	76,080
Rural residential real estate	61,527	62,799
Lease receivables	157,257	120,474
Mission-related	3,691	3,735
Loans to other financing institutions (OFIs)	20,000	32,500
Total loans	\$ 23,712,395	\$ 24,307,238

The Bank and Associations purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2011:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 100,434	\$ 834,556	\$ 370,495	\$ 45,424	\$ 470,929	\$ 879,980
Production and intermediate term	201,757	736,446	69,336	17,530	271,093	753,976
Agribusiness	806,530	750,601	249,568	4,292	1,056,098	754,893
Communication	78,544	-	-	-	78,544	-
Energy	202,531	-	227	-	202,758	-
Water and waste disposal	18,411	-	-	-	18,411	-
International	45,492	-	520	-	46,012	-
Lease receivables	8,930	-	-	-	8,930	-
Total	\$ 1,462,629	\$ 2,321,603	\$ 690,146	\$ 67,246	\$ 2,152,775	\$ 2,388,849

One credit quality indicator utilized by the Bank and Associations is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2011	December 31, 2010
Real estate mortgage		
Acceptable	90.45%	90.23%
OAEM	5.50	5.51
Substandard	4.04	4.26
Doubtful	0.01	-
Total	100.00%	100.00%
Production and intermediate-term		
Acceptable	87.05%	87.06%
OAEM	7.25	7.44
Substandard	5.69	5.48
Doubtful	0.01	0.02
Total	100.00%	100.00%
Agribusiness		
Acceptable	91.83%	91.33%
OAEM	4.73	5.66
Substandard	3.25	2.79
Doubtful	0.19	0.22
Total	100.00%	100.00%
Energy		
Acceptable	97.41%	98.65%
OAEM	1.15	-
Substandard	1.18	1.35
Doubtful	0.26	-
Total	100.00%	100.00%
Water/Waste disposal		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Communication		
Acceptable	100.00%	99.28%
Substandard	-	0.27
Doubtful	-	0.45
Total	100.00%	100.00%
Rural residential real estate		
Acceptable	97.08%	97.68%
OAEM	0.63	0.57
Substandard	2.29	1.75
Total	100.00%	100.00%
International		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Lease receivables		
Acceptable	99.99%	99.67%
OAEM	0.01	0.04
Substandard	-	0.29
Total	100.00%	100.00%
Mission-related		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Loans to OFIs		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Total Loans		
Acceptable	90.12%	89.86%
OAEM	5.64	5.83
Substandard	4.20	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:

<i>(dollars in thousands)</i>	June 30, 2011	December 31, 2010
Nonaccrual loans		
Real estate mortgage	\$ 163,210	\$ 183,488
Production and intermediate-term	68,766	74,599
Agribusiness	34,684	29,446
Communication	618	721
Energy	1,695	-
Rural residential real estate	385	409
Lease receivables	1,085	346
Total nonaccrual loans	270,443	289,009
Accruing restructured loans		
Real estate mortgage	9,941	10,208
Production and intermediate-term	18	19
Agribusiness	2,264	-
Rural residential real estate	3	6
Total accruing restructured loans	12,226	10,233
Accruing loans 90 days past due		
Real estate mortgage	9,985	7,006
Production and intermediate-term	8,493	4,131
Agribusiness	1,521	-
Total accruing loans 90 days past due	19,999	11,137
Total impaired loans	302,668	310,379
Other property owned	109,157	115,693
Total high risk assets	\$ 411,825	\$ 426,072

Additional impaired loan information is as follows:

	At June 30, 2011			For the three months ended June 30, 2011		For the six months ended June 30, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	\$ 24,187	\$ 28,507	\$ 4,737	\$ 27,458	\$ 24	\$ 27,560	\$ 49
Production and intermediate-term Agribusiness	33,250	38,993	8,774	36,897	(3)	35,216	(3)
Processing and marketing	19,386	22,954	8,540	23,904	3	21,692	7
Farm-related business	191	257	182	195	–	187	–
Communication	618	618	440	691	–	704	–
Energy	1,695	1,695	784	75	–	38	–
Rural residential real estate	52	52	10	156	(1)	172	–
Lease receivables	820	820	245	811	–	615	–
Total	\$ 80,199	\$ 93,896	\$ 23,712	\$ 90,187	\$ 23	\$ 86,184	\$ 53
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 158,949	\$ 159,775		\$ 158,576	\$ 1,558	\$ 159,900	\$ 2,515
Production and intermediate-term Agribusiness	44,027	57,831		46,468	610	43,988	1,194
Processing and marketing	16,055	17,020		13,032	10	10,462	12
Farm-related business	2,837	5,656		2,635	1	2,559	1
Communication	–	–		13	1	8	1
Rural residential real estate	336	336		257	2	239	2
Lease receivables	265	265		217	–	142	–
Total	\$ 222,469	\$ 240,883		\$ 221,198	\$ 2,182	\$ 217,298	\$ 3,725
Total impaired loans:							
Real estate mortgage	\$ 183,136	\$ 188,282	\$ 4,737	\$ 186,034	\$ 1,582	\$ 187,460	\$ 2,564
Production and intermediate-term Agribusiness	77,277	96,824	8,774	83,365	607	79,204	1,191
Processing and marketing	35,441	39,974	8,540	36,936	13	32,154	19
Farm-related business	3,028	5,913	182	2,830	1	2,746	1
Communication	618	618	440	704	1	712	1
Energy	1,695	1,695	784	75	–	38	–
Rural residential real estate	388	388	10	413	1	411	2
Lease receivables	1,085	1,085	245	1,028	–	757	–
Total	\$ 302,668	\$ 334,779	\$ 23,712	\$ 311,385	\$ 2,205	\$ 303,482	\$ 3,778

	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 Agribusiness	29,686	37,953	7,359	51,068	16
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 Agribusiness	49,063	58,487		51,437	1,840
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 Agribusiness	78,749	96,440	7,359	102,505	1,856
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 June 30, 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 Past Due Days and Accruing
Real estate mortgage	\$ 40,925	\$ 90,013	\$ 130,938	\$ 15,006,936	\$ 15,137,874	\$ 9,985
Production and intermediate-term Agribusiness	25,250	29,773	55,023	5,129,272	5,184,295	8,493
Communication	2,634	16,894	19,528	2,980,051	2,999,579	1,521
Energy	—	—	—	106,752	106,752	—
Water and waste disposal	—	—	—	224,624	224,624	—
International	—	—	—	19,072	19,072	—
Rural residential real estate	—	—	—	73,165	73,165	—
Lease receivables	284	—	284	61,609	61,893	—
Mission-related	—	—	—	157,297	157,297	—
Loans to OFIs	—	—	—	3,712	3,712	—
Loans to OFIs	—	—	—	20,014	20,014	—
Total	\$ 69,093	\$ 136,680	\$ 205,773	\$ 23,782,504	\$ 23,988,277	\$ 19,999

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 June 30, 2011
Real estate mortgage	\$ 37,705	\$ (4,225)	\$ 137	\$ 8,693	\$ 42,310
Production and intermediate-term	53,501	(5,062)	527	(361)	48,605
Agribusiness	23,466	(755)	(120)	1,237	23,828
Communication	594	—	—	(10)	584
Energy	2,275	—	28	678	2,981
Water and waste disposal	6	—	—	2	8
International	21	—	—	10	31
Rural residential real estate	53	—	—	(2)	51
Lease receivables	935	(1)	—	(57)	877
Mission-related	1	—	—	—	1
Total	\$ 118,557	\$ (10,043)	\$ 572	\$ 10,190	\$ 119,276

	Allowance for Credit Losses Ending Balance at June 30, 2011		Recorded Investments in Loans Outstanding Ending Balance at June 30, 2011	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ 4,894	\$ 37,416	\$ 184,528	\$ 14,953,346
Production and intermediate-term	8,774	39,831	79,228	5,105,067
Agribusiness	8,722	15,106	38,469	2,961,110
Communication	440	144	618	106,134
Energy	784	2,197	1,695	222,929
Water and waste disposal	—	8	—	19,072
International	—	31	—	73,165
Rural residential real estate	10	41	387	61,506
Lease receivables	245	632	1,085	156,212
Mission-related	—	1	—	3,712
Loans to OFIs	—	—	—	20,014
Total	\$ 23,869	\$ 95,407	\$ 306,010	\$ 23,682,267

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:

Unaudited	Amortized Cost	June 30, 2011 Gross Unrealized		Fair Value	Weighted Yield
		Gains	Losses		
U.S. Treasury securities	\$ 551,306	\$ 538	\$ 5	\$ 551,839	0.34%
Mortgage-backed securities					
U.S. Government guaranteed	1,999,145	4,957	3,282	2,000,820	0.69%
Private Label - FHA/VA reperformers	1,140,134	—	161,471	978,663	0.48%
Federal agency guaranteed	498,275	4,152	2,638	499,789	2.51%
Non-agency	193,398	36	23,221	170,213	1.23%
FDIC insured bank debt	162,494	664	—	163,158	1.02%
Non-agency asset-backed securities	88,133	—	20,159	67,974	0.42%
Total	\$ 4,632,885	\$ 10,347	\$ 210,776	\$ 4,432,456	0.82%

	December 31, 2010				
	Amortized Cost	Gross Unrealized		Fair Value	Weighted Yield
		Gains	Losses		
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 June 30, 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	\$ 551,839	0.34%	\$ –	–	\$ –	–	\$ –	–	\$ 551,839	0.34%
Mortgage-backed securities										
U.S. Government guaranteed	–	–	–	–	–	–	2,000,820	0.69%	2,000,820	0.69%
Private Label – FHA/VA reperformers	–	–	–	–	173,822	0.42%	804,841	0.49%	978,663	0.48%
Federal agency guaranteed	–	–	–	–	28,065	1.12%	471,724	2.59%	499,789	2.51%
Non-agency	–	–	–	–	–	–	170,213	1.23%	170,213	1.23%
FDIC insured bank debt	163,158	1.02%	–	–	–	–	–	–	163,158	1.02%
Non-agency asset-backed securities	–	–	–	–	–	–	67,974	0.42%	67,974	0.42%
Total fair value	\$ 714,997	0.50%	\$ –	–	\$ 201,887	0.51%	\$3,515,572	0.90%	\$4,432,456	0.82%
Total amortized cost	\$ 713,800		\$ –		\$ 216,738		\$3,702,347		\$4,632,885	

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.

	June 30, 2011				
	Amortized Cost	Gross Unrealized		Fair Value	Weighted Yield
		Gains	Losses		
Agricultural mortgage-backed securities	\$ 387,338	\$ 9,764	\$ 1,008	\$ 396,094	2.14%

	December 31, 2010				
	Amortized Cost	Gross Unrealized		Fair Value	Weighted Yield
		Gains	Losses		
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.

	June 30, 2011				
	Amortized Cost	Gross Unrealized		Fair Value	Weighted Yield
		Gains	Losses		
Agricultural mortgage-backed securities	\$ 236,747	\$ 6,575	\$ -	\$ 243,322	3.39%
Non-agency asset-backed securities	5,412	712	-	6,124	4.31%
Total	\$ 242,159	\$ 7,287	\$ -	\$ 249,446	3.41%

	December 31, 2010				
	Amortized Cost	Gross Unrealized		Fair Value	Weighted Yield
		Gains	Losses		
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 six months of 2011, AgBank recorded subsequent impairment losses on five non-agency mortgage-backed securities, two private label FHA/VA reperformer securities, and one asset-backed security that were determined to be other-than-temporarily impaired resulting in a credit-related loss of \$14.3 million being recognized in earnings. During the first six months of 2010, AgBank recorded subsequent impairment losses of \$2.6 million on two non-agency mortgage-backed securities

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	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Default Rate Assumptions	6.0% - 10.2%	3.6% - 6.4%	6.0%	N/A	1.9% - 2.2%	N/A
Prepayment Rate Assumptions	6.1% - 9.2%	7.4% - 8.6%	3.2%	N/A	2.9% - 3.6%	N/A
Loss Severity Assumptions	52.8% - 59.0%	52.5% - 54.3%	73.9%	N/A	7.2% - 14.9%	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 June 30.

	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	14,277	2,574
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	(829)	(622)
Ending balance related to credit-related losses at June 30	\$ 56,472	\$ 52,651

Unrealized Losses

In addition to the securities that were determined to be other-than-temporarily impaired as of June 30, 2011, AgBank and the Associations also owned securities that were in an unrealized loss position at June 30, 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.

June 30, 2011	<u>Less than 12 months</u>		<u>Greater than 12 months</u>	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	\$ 100,582	\$ 5	\$ -	\$ -
Mortgage-backed securities				
U.S. Government guaranteed	991,728	3,282	-	-
Private Label - FHA/VA reperformers	-	-	978,663	161,471
Federal agency guaranteed	318,601	2,621	572	17
Non-agency	265	5	163,359	23,216
Non-agency asset-backed securities	-	-	67,974	20,159
Farmer Mac	-	-	114,925	1,008
Total	\$ 1,411,176	\$ 5,913	\$ 1,325,493	\$ 205,871

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 June 30, 2011, AgBank's permanent capital ratio was 20.64 percent, total surplus ratio was 16.18 percent, core surplus ratio was 12.51 percent, and net collateral ratio was 105.48 percent. All Associations exceeded the regulatory minimum capital requirements at June 30, 2011.

NOTE 5 – INCOME TAXES

Provision for income taxes for the six-month period ended June 30, 2011 was \$3.0 million, compared with \$1.8 million 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 June 30, 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 six months ended June 30:

Unaudited	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Service cost	\$ 4,286	\$ 4,033	\$ 44	\$ 44
Interest cost	10,336	10,585	175	184
Expected return on plan assets	(10,911)	(10,579)	–	–
Net amortization and deferral	3,635	5,862	(14)	(62)
Net periodic benefit cost	\$ 7,346	\$ 9,901	\$ 205	\$ 166

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 June 30, 2011, \$4.9 million of contributions have been made to the pension and postretirement plans. AgBank and Associations presently anticipate contributing an additional \$9.5 million to fund its pension and postretirement plans in 2011 for a total of \$14.4 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:

June 30, 2011 - Unaudited	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments available-for-sale				
U.S. Treasury securities	\$ –	\$ 551,839	\$ –	\$ 551,839
Mortgage-backed securities				
U.S. Government guaranteed	–	2,000,820	–	2,000,820
Private Label - FHA/VA reperformers	–	–	978,663	978,663
Federal agency guaranteed	–	499,789	–	499,789
Non-agency	–	–	170,213	170,213
FDIC insured bank debt	–	163,158	–	163,158
Non-agency asset-backed securities	–	–	67,974	67,974
Farmer Mac securities	–	–	396,094	396,094
Derivative assets	–	72,905	–	72,905
Assets held in nonqualified benefits trust	24,777	–	–	24,777
Total assets	\$ 24,777	\$ 3,288,511	\$ 1,612,944	\$ 4,926,232
Liabilities:				
Derivatives liabilities	–	1,021	–	1,021
Collateral liabilities	230	–	–	230
Total liabilities	\$ 230	\$ 1,021	\$ –	\$ 1,251

December 31, 2010	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
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 six 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 significant unobservable inputs (Level 3) for the three months ended June 30:

	Mortgage-backed securities	Total Fair Value Measurement Asset-backed securities	Farmer Mac securities	Derivative Liabilities
Balance at March 31, 2011	\$ 1,199,491	\$ 76,406	\$ 405,346	\$ –
Total gains or (losses) realized/unrealized:				
Included in earnings	(8,057)	(1,723)	–	–
Included in other comprehensive income	7,772	(1,236)	1,857	–
Settlements	(50,330)	(5,473)	(11,109)	–
Balance at June 30, 2011	\$ 1,148,876	\$ 67,974	\$ 396,094	\$ –
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 June 30, 2011	\$ (8,301)	\$ (1,723)	\$ –	\$ –
Balance at March 31, 2010	\$ 1,364,164	\$ 115,415	\$ 470,969	\$ –
Total gains or (losses) realized/unrealized:				
Included in earnings	(1,952)	–	–	–
Included in other comprehensive income	44,749	2,087	1,408	–
Settlements	(59,907)	(4,832)	(18,838)	–
Balance at June 30, 2010	\$ 1,347,054	\$ 112,670	\$ 453,539	\$ –
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 June 30, 2010	\$ (1,952)	\$ –	\$ –	\$ –

The table below represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30:

	Mortgage-backed securities	Total Fair Value Measurement		Derivative Liabilities
		Asset-backed securities	Farmer Mac securities	
Balance at December 31, 2010	\$ 1,244,630	\$ 82,120	\$ 424,431	\$ -
Total gains or (losses) realized/unrealized:				
Included in earnings	(11,725)	(1,723)	-	-
Included in other comprehensive income	15,191	(3,176)	1,330	-
Settlements	(99,220)	(9,247)	(29,667)	-
Balance at June 30, 2011	\$ 1,148,876	\$ 67,974	\$ 396,094	\$ -
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 June 30, 2011	\$ (12,554)	\$ (1,723)	\$ -	\$ -
Balance at December 31, 2009	\$ 1,406,259	\$ 117,715	\$ 492,724	\$ 249
Total gains or (losses) realized/unrealized:				
Included in earnings	(1,952)	-	-	-
Included in other comprehensive income	65,742	4,771	(1,312)	-
Settlements	(122,995)	(9,816)	(37,873)	(249)
Balance at June 30, 2010	\$ 1,347,054	\$ 112,670	\$ 453,539	\$ -
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 June 30, 2010	\$ (1,952)	\$ -	\$ -	\$ -

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

June 30, 2011 - Unaudited	Fair Value Measurement Using			Total Fair Value	Total Gains/(Losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans	\$ -	\$ -	\$ 503,029	\$ 503,029	\$ (10,157)
Other property owned	\$ -	\$ -	\$ 116,081	\$ 116,081	\$ (2,755)
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 June 30, 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.

Unaudited	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Loans and notes receivable, net	\$ 23,593,119	\$ 23,784,892	\$ 24,188,681	\$ 24,388,226
Cash	\$ 278,707	\$ 278,707	\$ 330,341	\$ 330,341
Investment securities	\$ 5,070,709	\$ 5,077,996	\$ 5,095,139	\$ 5,103,139
Derivative assets	\$ 72,905	\$ 72,905	\$ 78,218	\$ 78,218
Assets held in nonqualified benefits trust	\$ 24,777	\$ 24,777	\$ 24,589	\$ 24,589
Financial liabilities:				
Systemwide debt securities	\$ 22,902,005	\$ 23,382,308	\$ 23,881,678	\$ 24,340,698
Other bonds and notes	\$ 957,635	\$ 957,579	\$ 804,248	\$ 804,164
Derivative liabilities	\$ 1,021	\$ 1,021	\$ 2,938	\$ 2,938
Collateral liabilities	\$ 230	\$ 230	\$ 380	\$ 380
Unrecognized financial instruments:				
Commitments to extend credit	\$ -	\$ 336	\$ -	\$ 707
Standby letters of credit	\$ -	\$ 1,377	\$ -	\$ 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:

<i>(in millions)</i>	Receive-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2011	\$ 1,385.0	\$ 1,285.0	\$ 2,670.0
Additions	50.0	100.0	150.0
Maturities/amortization	(50.0)	(25.0)	(75.0)
Terminations	(100.0)	-	(100.0)
Balance at June 30, 2011	\$ 1,285.0	\$ 1,360.0	\$ 2,645.0

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 June 30, 2011, AgBank's exposure to counterparties, net of collateral, was \$54.1 million and \$58.2 million at December 31, 2010. At June 30, 2011, AgBank held cash of \$230 thousand and investment securities of \$25.1 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 June 30, 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 June 30, 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.

	June 30, 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	\$ 65,771	\$ 1,021	\$ 68,190	\$ 2,938
Interest rate caps	7,134	—	10,028	—
Total derivatives	\$ 72,905	\$ 1,021	\$ 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 six months ended June 30, 2011 was \$502 thousand, while the amount of the gain on the hedged Systemwide Debt Securities was \$490 thousand. 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 June 30:

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)	\$ 86
Total		\$ (12)	\$ 86

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 June 30:

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	\$ (5,088)	\$ (10,479)	Interest Expense	\$ (777)	\$ (2,194)
Forward starting swaps	–	–	Interest Expense	235	222
Total	\$ (5,088)	\$ (10,479)		\$ (542)	\$ (1,972)

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 June 30:

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	\$ –	\$ (11)
Total		\$ –	\$ (11)

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 June 30, 2011 were \$187.30 billion.

At June 30, 2011, the assets of the Farm Credit System Insurance Fund totaled \$3.32 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 June 30, 2011, \$7.63 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 June 30, 2011 the District had \$137.5 million of standby letters of credit.

At June 30, 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 August 9, 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

	June 30, 2011 Unaudited	December 31, 2010
Loans to Associations	\$ 18,326,377	\$ 19,272,988
Loans to others	919,334	917,259
Less: allowance for loan losses	2,477	2,504
Net loans	19,243,234	20,187,743
Cash and investment securities	4,943,307	4,942,674
Other assets	224,321	255,601
Total assets	\$ 24,410,862	\$ 25,386,018
Systemwide debt securities	\$ 22,902,005	\$ 23,881,678
Other liabilities	198,453	137,640
Total liabilities	23,100,458	24,019,318
Preferred stock	225,000	225,000
Stock	636,032	631,379
Retained earnings	662,485	717,942
Accumulated other comprehensive income/(loss)	(213,113)	(207,621)
Total shareholders' equity	1,310,404	1,366,700
Total liabilities and shareholders' equity	\$ 24,410,862	\$ 25,386,018

STATEMENT OF INCOME

Unaudited	For the six months ended June 30	
	2011	2010
Interest income	\$ 262,491	\$ 313,788
Interest expense	192,120	245,575
Net interest income	70,371	68,213
Provision for loan losses/(Loan loss reversals)	638	(1,809)
Noninterest income	18,736	19,380
Salaries and employee benefits	8,588	8,696
Occupancy and equipment	1,216	1,328
Insurance fund premium	72	128
Other operating expenses	5,083	5,190
Merger-related costs	2,162	-
Concession expense write-off on called debt	<u>1,096</u>	<u>6,446</u>
Noninterest expense	18,217	21,788
Loss on investment impairments	14,277	2,574
Net income	\$ 55,975	\$ 65,040

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