

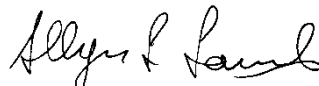
SECOND QUARTER 2011

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CERTIFICATION

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



Allyn L. Lamb
Chief Executive Officer



Darrell L. Curtis
Chief Operating Officer
& Chief Financial Officer



William K. Jackson
Chairman of the Board

August 8, 2011

Report on Internal Control Over Financial Reporting

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

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

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

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



Allyn L. Lamb
Chief Executive Officer



Darrell L. Curtis
Chief Financial Officer &
Chief Operating Officer

August 8, 2011

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgChoice Farm Credit ACA, (Association) for the period ended June 30, 2011. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2010 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. Information in any part of this Quarterly Report may be incorporated by reference in answer or partial answer to any other item of the Quarterly Report.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities, including dairy, livestock, poultry, forest products, and various crops, and also includes part-time farm and rural home loans. Farm size varies, and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, impacts the level of dependency on a given commodity.

The gross loan volume of the Association as of June 30, 2011, was \$1,278,794, a decrease of \$25,737 as compared to \$1,304,531 at December 31, 2010. Net loans outstanding at June 30, 2011, were \$1,270,439 as compared to \$1,296,059 at December 31, 2010. Net loans accounted for 95.8 percent of total assets at June 30, 2011, as compared to 95.0 percent of total assets at December 31, 2010.

The 2.0 percent decrease in both gross and net loan volume during the reporting period is the result of principal payments and payoffs outpacing new loan volume, for which demand was light.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual volume increased from \$43,821 at December 31, 2010, to \$48,280 at June 30, 2011. The Association continues efforts to work out of nonaccrual accounts or to assist such operations to return to accrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses was \$8,355 and \$8,472 at June 30, 2011 and December 31, 2010, respectively. Also at June 30, 2011, the Association booked a reserve for unfunded commitments of \$1,048 on a participation account. These reserves were considered by management to be adequate to cover possible losses. As a further means to reduce credit risk, as of June 30, 2011, the Association had loans amounting to \$35,277 under a long-term standby commitment from Farmer Mac to purchase these loans in the event of loan defaults.

RESULTS OF OPERATIONS

For the three months ended June 30, 2011

Net income for the three months ended June 30, 2011, totaled \$8,909, as compared to \$8,887 for the same period in 2010. Net interest income increased by \$1,396 for the three months ended June 30, 2011, as compared to the second quarter in 2010.

At June 30, 2011, interest income on accruing loans decreased \$962 compared to a year ago. Nonaccrual interest income was \$905 for the three months ended June 30, 2011, as compared to \$30 for the same period in 2010. Interest expense decreased \$1,483 for the three months ended June 30, 2011, as compared to the same period of 2010. The decrease in interest income and interest expense is mainly due to the decline in volume and the decrease in rates seen in the market place.

Increased risk in the portfolio relating to nonaccrual accounts and losses on certain participation accounts resulted in a \$47 provision for loan losses in the second quarter of 2011.

Noninterest income for the three months ended June 30, 2011, totaled \$3,992, as compared to \$5,151 for the same period of 2010, a decrease of \$1,159. This decrease was mostly caused by a 2011 reserve for unfunded commitments of \$1,048 booked as other noninterest income (expense) as of June 30, 2011.

Noninterest expense for the three months ended June 30, 2011, increased \$412 or 8.1 percent, compared to the same period of 2010. This increase is primarily due to higher

personnel and Farm Credit System Insurance Corporation (FCSIC) expense.

The provision for income taxes was \$53 for the second quarter of 2011 as compared to a \$45 provision in the same period last year.

For the six months ended June 30, 2011

Net income for the six months ended June 30, 2011, totaled \$15,712, as compared to \$17,093 for the same period in 2010. Net interest income increased \$2,434 for the six months ended June 30, 2011, as compared to the same period one year ago.

At June 30, 2011, interest income on accruing loans decreased \$1,354 compared to a year ago. Nonaccrual interest income was \$991 for the six months ended June 30, 2011, as compared to \$163 for the same period in 2010. Interest expense decreased \$2,960 for the six months ended June 30, 2011, as compared to the comparable period of 2010. The decrease in interest income and interest expense is primarily due to declining volume and the decrease in rates seen in the market place during the past year.

Increased risk in the portfolio relating to nonaccrual accounts and operating pressure in certain commodities resulted in a \$251 provision for loan losses in the first half of 2011.

Noninterest income for the six months ended June 30, 2011, totaled \$7,018, as compared to \$11,032 for the same period of 2010, a decrease of \$4,014. This decrease resulted from the receipt of \$1,809 FCSIC refund in 2010 that was not repeated in 2011, a \$1,048 reserve for unfunded commitments booked as other noninterest income (expense) as of June 30, 2011 and a large 2011 writedown of an acquired property. Equity in earnings of other Farm Credit institutions decreased \$536 due to lower borrowing from the Bank and a smaller volume of loans sold to the Bank.

Noninterest expense for the six months ended June 30, 2011, increased \$878, or 8.3 percent, compared to the same period of 2010. This increase was primarily due to higher personnel, travel and director expenses.

The provision for income taxes was \$101 for the six months ended June 30, 2011 as compared to \$59 in the same period last year.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on

which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2011, was \$1,061,089 as compared to \$1,101,436 at December 31, 2010. The decrease in notes payable is mainly due to the decrease in gross loan volume since the end of 2010, the receipt of the 2010 Equity in earnings of other Farm Credit institutions and 2011 Association year-to-date net income.

CAPITAL RESOURCES

Total members' equity at June 30, 2011, increased to \$250,157 from the December 31, 2010, total of \$234,824. The increase is primarily attributed to year-to-date 2011 earnings.

Total capital stock and participation certificates were \$10,972 on June 30, 2011, compared to \$11,179 on December 31, 2010.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus, as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2011, the Association's permanent capital and total surplus ratios were 16.44 percent and 15.59 percent, respectively, and the core surplus ratio was 13.77 percent. All three ratios were well above the minimum regulatory requirements of 7.00 percent for the permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

Financial Regulatory Reform

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

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

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

The Dodd-Frank Act will also require certain financial institutions to register as swap dealers or major swap participants, as applicable, with the CFTC and/or the Securities and Exchange Commission. Based on the proposed rules, it is possible that certain System institutions could be required to register with the CFTC as swap dealers based on swaps entered into between System institutions or between System institutions and their borrowers, which

would subject these System institutions to considerable additional regulation and cost. In addition, the counterparties with which System institutions enter into derivative transactions for hedging and risk mitigation purposes will most likely be designated as swap dealers and, as a result, be subject to additional regulatory requirements.

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

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

Note: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745 ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-349-3568 or writing AgChoice Farm Credit, ACA, 900 Bent Creek Blvd., Mechanicsburg, PA, 17050, or accessing the website www.agchoice.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

AgChoice Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2011 <i>(unaudited)</i>	December 31, 2010 <i>(audited)</i>
Assets		
Cash	\$ 217	\$ 355
Investment securities:		
Held to maturity (fair value of \$2,597 and \$2,597 respectively)	2,392	2,392
Loans	1,278,794	1,304,531
Less: allowance for loan losses	8,355	8,472
Net loans	1,270,439	1,296,059
Accrued interest receivable	6,421	5,218
Investments in other Farm Credit institutions	29,655	30,719
Premises and equipment, net	3,712	3,701
Other property owned	1,232	2,397
Due from AgFirst Farm Credit Bank	6,351	16,617
Other assets	5,328	7,001
Total assets	<u>\$ 1,325,747</u>	<u>\$ 1,364,459</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,061,089	\$ 1,101,436
Accrued interest payable	2,231	2,379
Patronage refund payable	425	12,353
Other liabilities	11,845	13,467
Total liabilities	<u>1,075,590</u>	<u>1,129,635</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	10,972	11,179
Surplus		
Allocated	121,637	121,535
Unallocated	117,556	102,115
Accumulated other comprehensive income (loss)	(8)	(5)
Total members' equity	<u>250,157</u>	<u>234,824</u>
Total liabilities and members' equity	<u>\$ 1,325,747</u>	<u>\$ 1,364,459</u>

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

AgChoice Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Interest Income				
Investment securities	\$ 38	\$ —	\$ 75	\$ —
Loans	17,217	17,342	34,119	34,720
Total interest income	17,255	17,342	34,194	34,720
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,741	8,224	13,662	16,622
Net interest income	10,514	9,118	20,532	18,098
Provision for loan losses	47	252	251	1,370
Net interest income after provision for loan losses	10,467	8,866	20,281	16,728
Noninterest Income				
Loan fees	594	518	1,072	974
Fees for financially related services	307	288	506	457
Equity in earnings of other Farm Credit institutions	3,853	4,334	7,114	7,650
Gains (losses) on other property owned, net	75	(45)	(922)	(39)
Gains (losses) on sale of rural home loans, net	54	37	136	65
Gains (losses) on sales of premises and equipment, net	1	(3)	14	9
Insurance Fund refunds	—	—	—	1,809
Other noninterest income (expense)	(892)	22	(902)	107
Total noninterest income	3,992	5,151	7,018	11,032
Noninterest Expense				
Salaries and employee benefits	3,913	3,674	8,036	7,390
Occupancy and equipment	282	278	589	562
Insurance Fund premium	158	9	316	283
Other operating expenses	1,144	1,124	2,545	2,373
Total noninterest expense	5,497	5,085	11,486	10,608
Income before income taxes	8,962	8,932	15,813	17,152
Provision for income taxes	53	45	101	59
Net income	\$ 8,909	\$ 8,887	\$ 15,712	\$ 17,093

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

AgChoice Farm Credit, ACA
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2009	\$ 11,695	\$ 107,109	\$ 95,015	\$ 4	\$ 213,823
Comprehensive income					
Net income			17,093		17,093
Employee benefit plans adjustments				1	1
Total comprehensive income					17,094
Capital stock/participation					
certificates issued/(retired), net	(325)				(325)
Dividends declared/paid	15		(15)		-
Surplus retired		(160)			(160)
Patronage distribution adjustment		(28)	25		(3)
Balance at June 30, 2010	\$ 11,385	\$ 106,921	\$ 112,118	\$ 5	\$ 230,429
Balance at December 31, 2010	\$ 11,179	\$ 121,535	\$ 102,115	\$ (5)	\$ 234,824
Comprehensive income					
Net income			15,712		15,712
Employee benefit plans adjustments				(3)	(3)
Total comprehensive income					15,709
Capital stock/participation					
certificates issued/(retired), net	(217)				(217)
Dividends declared/paid	10		(10)		-
Surplus retired		(158)			(158)
Patronage distribution adjustment		260	(261)		(1)
Balance at June 30, 2011	\$ 10,972	\$ 121,637	\$ 117,556	\$ (8)	\$ 250,157

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

AgChoice Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

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

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

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2011 the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

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

In April 2011, the FASB issued guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for the first interim or annual period beginning on or after December 15, 2012, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment of those receivables, an entity should apply the guidance prospectively for the first interim or annual period beginning on or after December 15, 2012. The impact of adoption of this guidance, if any, is expected to be immaterial to the Association's financial condition and results of operations, but it will result in additional disclosures.

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

Effective January 1, 2010, the Association adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 6).

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

NOTE 2 – INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held-to-maturity at June 30, 2011 and December 31, 2010 follows.

		June 30, 2011				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments		\$ 2,392	\$ 205	\$ -	\$ 2,597	6.23%

		December 31, 2010				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments		\$ 2,392	\$ 205	\$ -	\$ 2,597	6.23%

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

		June 30, 2011		
		Amortized Cost	Fair Value	Weighted Average Yield
In one year or less		\$ -	\$ -	-%
After one year through five years		-	-	-
After five years through ten years		-	-	-
After ten years		2,392	2,597	6.23
Total		\$ 2,392	\$ 2,597	6.23%

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The Association had no investments that have been in a continuous unrealized loss position at June 30, 2011 or December 31, 2010.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers and 7) volatility of the fair value changes. Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment in connection with its investment securities. The Association has the ability and intent to hold these investments until maturity and at this time expects to collect the full principal amount and interest due on these securities.

The Association does not intend to sell these investments and it is unlikely that the Association would be required to sell these investments before recovering its costs. All securities continue to perform and are in an unrealized gain position at June 30, 2011.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans outstanding as of June 30, 2011 and December 31, 2010, follows:

	June 30, 2011	December 31, 2010
Real estate mortgage	\$ 543,334	\$ 548,707
Production and intermediate-term Agribusiness	549,146	561,418
Loans to cooperatives	18,840	16,254
Processing and marketing	60,018	61,004
Farm-related business	25,142	27,955
Total agribusiness	104,000	105,213
Communication	39,351	40,914
Energy	16,402	19,010
Rural residential real estate	23,843	25,723
Lease receivables	2,718	3,546
Total loans	\$ 1,278,794	\$ 1,304,531

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

June 30, 2011

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 9,324	\$ 82,402	\$ 17,501	\$ -	\$ -	\$ -	\$ 26,825
Production and intermediate-term Agribusiness	52,513	74,292	11,541	8,123	28,358	-	92,412	82,415
Loans to cooperatives	3,484	-	15,393	-	-	-	18,877	-
Processing and marketing	14,021	3,699	25,854	-	18,636	-	58,511	3,699
Farm-related business	-	4,152	-	-	1,801	-	1,801	4,152
Total agribusiness	17,505	7,851	41,247	-	20,437	-	79,189	7,851
Communication	-	-	39,495	-	-	-	39,495	-
Energy	2,434	-	14,011	-	-	-	16,445	-
Lease receivables	-	-	2,717	-	-	-	2,717	-
Total	\$ 81,776	\$ 164,545	\$ 126,512	\$ 8,123	\$ 48,795	\$ -	\$ 257,083	\$ 172,668

December 31, 2010

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 10,776	\$ 110,545	\$ 20,125	\$ -	\$ -	\$ -	\$ 30,901
Production and intermediate-term Agribusiness	46,777	76,402	12,788	8,403	30,588	-	90,153	84,805
Loans to cooperatives	3,006	-	13,293	-	-	-	16,299	-
Processing and marketing	21,032	3,880	13,095	-	19,742	-	53,869	3,880
Farm-related business	-	3,141	-	-	-	-	-	3,141
Total agribusiness	24,038	7,021	26,388	-	19,742	-	70,168	7,021
Communication	-	-	41,088	-	-	-	41,088	-
Energy	2,434	-	16,629	-	-	-	19,063	-
Lease receivables	-	-	3,546	-	-	-	3,546	-
Total	\$ 84,025	\$ 193,968	\$ 120,564	\$ 8,403	\$ 50,330	\$ -	\$ 254,919	\$ 202,371

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at June 30, 2011 and indicates that approximately 29.29 percent of loans had maturities of one year or less:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 24,570	\$ 133,704	\$ 385,060	\$ 543,334
Production and intermediate-term	218,696	210,790	119,660	549,146
Agribusiness				
Loans to cooperatives	18,086	364	390	18,840
Processing and marketing	50,653	7,874	1,491	60,018
Farm-related business	7,008	9,986	8,148	25,142
Total agribusiness	75,747	18,224	10,029	104,000
Communication	39,320	(6)	37	39,351
Energy	14,540	41	1,821	16,402
Rural residential real estate	904	4,193	18,746	23,843
Lease receivables	782	1,757	179	2,718
Total Loans	\$ 374,559	\$ 368,703	\$ 535,532	\$ 1,278,794

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

	June 30, 2011	December 31, 2010		June 30, 2011	December 31, 2010
Real estate mortgage:			Energy and water/waste disposal:		
Acceptable	89.03%	88.26%	Acceptable	100.00%	100.00%
OAEM	5.11	5.67	OAEM	-	-
Substandard/doubtful/loss	5.86	6.07	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Communication:		
Acceptable	81.47%	79.36%	Acceptable	100.00%	100.00%
OAEM	8.51	10.52	OAEM	-	-
Substandard/doubtful/loss	10.02	10.12	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Agribusiness:			Rural residential real estate:		
Loans to cooperatives:			Acceptable	90.57%	90.05%
Acceptable	97.00%	96.49%	OAEM	3.44	3.10
OAEM	3.00	3.51	Substandard/doubtful/loss	5.99	6.85
Substandard/doubtful/loss	-	-		100.00%	100.00%
	100.00%	100.00%	Lease receivables:		
Processing and marketing:			Acceptable	66.28%	77.29%
Acceptable	88.39%	93.56%	OAEM	11.89	7.57
OAEM	7.28	1.66	Substandard/doubtful/loss	21.83	15.14
Substandard/doubtful/loss	4.33	4.78		100.00%	100.00%
	100.00%	100.00%	Total loans:		
Farm-related business:			Acceptable	86.41%	85.51%
Acceptable	92.96%	97.00%	OAEM	6.41	7.16
OAEM	5.92	1.84	Substandard/doubtful/loss	7.18	7.33
Substandard/doubtful/loss	1.12	1.16		100.00%	100.00%
	100.00%	100.00%	Total agribusiness:		
Total agribusiness:			Acceptable	91.06%	94.93%
Acceptable	91.06%	94.93%	OAEM	6.18	1.99
OAEM	6.18	1.99	Substandard/doubtful/loss	2.76	3.08
Substandard/doubtful/loss	2.76	3.08		100.00%	100.00%
	100.00%	100.00%			

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

June 30, 2011						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 4,224	\$ 10,694	\$ 14,918	\$ 531,781	\$ 546,699	\$ 516
Production and intermediate-term Agribusiness	6,581	17,999	24,580	526,899	551,479	-
Loans to cooperatives	571	-	571	18,309	18,880	-
Processing and marketing	-	-	-	60,199	60,199	-
Farm-related business	124	35	159	25,186	25,345	-
Total agribusiness	695	35	730	103,694	104,424	-
Communication	-	-	-	39,432	39,432	-
Energy and water/waste disposal	-	-	-	16,459	16,459	-
Rural residential real estate	328	363	691	23,277	23,968	-
Lease receivables	-	225	225	2,516	2,741	-
Total	\$ 11,828	\$ 29,316	\$ 41,144	\$ 1,244,058	\$ 1,285,202	\$ 516

December 31, 2010						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 3,432	\$ 6,175	\$ 9,607	\$ 541,667	\$ 551,274	\$ -
Production and intermediate-term Agribusiness	4,069	11,113	15,182	548,251	563,433	778
Loans to cooperatives	-	-	-	16,288	16,288	-
Processing and marketing	-	-	-	61,208	61,208	-
Farm-related business	10	40	50	28,004	28,054	-
Total agribusiness	10	40	50	105,500	105,550	-
Communication	-	-	-	41,011	41,011	-
Energy and water/waste disposal	-	-	-	19,074	19,074	-
Rural residential real estate	122	382	504	25,329	25,833	-
Lease receivables	81	90	171	3,399	3,570	-
Other (including mission-related)	-	-	-	4	4	-
Total	\$ 7,714	\$ 17,800	\$ 25,514	\$ 1,284,235	\$ 1,309,749	\$ 778

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

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

	June 30, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	\$ 16,884	\$ 14,767
Production and intermediate-term Agribusiness	30,234	27,128
Processing and marketing	98	984
Farm-related business	35	40
Total agribusiness	133	1,024
Rural residential real estate	619	623
Lease receivables	410	279
Total nonaccrual loans	<u>\$ 48,280</u>	<u>\$ 43,821</u>
Accruing restructured loans:		
Real estate mortgage	\$ -	\$ -
Production and intermediate-term Agribusiness	-	-
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Lease receivables	-	-
Total accruing restructured loans	<u>\$ -</u>	<u>\$ -</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 516	\$ -
Production and intermediate-term Agribusiness	-	778
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Lease receivables	-	-
Total accruing loans 90 days or more past due	<u>\$ 516</u>	<u>\$ 778</u>
Total nonperforming loans	\$ 48,796	\$ 44,599
Other property owned	1,232	2,397
Total nonperforming assets	<u>\$ 50,028</u>	<u>\$ 46,996</u>
Nonaccrual loans as a percentage of total loans	3.78%	3.36%
Nonperforming assets as a percentage of total loans and other property owned	3.91%	3.60%
Nonperforming assets as a percentage of capital	<u>20.00%</u>	<u>20.01%</u>

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

	June 30, 2011	December 31, 2009
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 14,319	\$ 21,908
Past due	33,961	21,913
Total impaired nonaccrual loans	<u>48,280</u>	<u>43,821</u>
Impaired accrual loans:		
Restructured	-	-
90 days or more past due	516	778
Total impaired accrual loans	<u>516</u>	<u>778</u>
Total impaired loans	<u>\$ 48,796</u>	<u>\$ 44,599</u>

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

	June 30, 2011			Quarter Ended June 30, 2011		Average		Interest Income	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Impaired Loans	Interest Income Recognized on Impaired Loans		
Impaired loans with a related allowance for credit losses:									
Real estate mortgage	\$ 4,320	\$ 5,974	\$ 305	\$ 4,131	\$ 84	\$ 4,038	\$ 92		
Production and intermediate-term Agribusiness	14,886	15,386	2,379	14,236	291	13,914	319		
Processing and marketing Farm-related business	-	-	-	-	-	-	-		
Total agribusiness	-	-	-	-	-	-	-		
Rural residential real estate	335	334	34	320	7	313	7		
Lease receivables	143	163	53	137	3	134	3		
Total	\$ 19,684	\$ 21,857	\$ 2,771	\$ 18,824	\$ 385	\$ 18,399	\$ 421		
Impaired loans with no related allowance for credit losses:									
Real estate mortgage	\$ 13,080	\$ 14,209	\$ -	\$ 12,509	\$ 256	\$ 12,226	\$ 280		
Production and intermediate-term Agribusiness	15,348	20,874	-	14,677	301	14,346	328		
Processing and marketing Farm-related business	98	99	-	93	2	91	2		
Total agribusiness	35	44	-	34	1	33	1		
Rural residential real estate	133	143	-	127	3	124	3		
Lease receivables	284	439	-	272	5	265	6		
Total	267	287	-	255	5	249	6		
Total	\$ 29,112	\$ 35,952	\$ -	\$ 27,840	\$ 570	\$ 27,210	\$ 623		
Total impaired loans:									
Real estate mortgage	\$ 17,400	\$ 20,183	\$ 305	\$ 16,640	\$ 340	\$ 16,264	\$ 372		
Production and intermediate-term Agribusiness	30,234	36,260	2,379	28,913	592	28,260	647		
Processing and marketing Farm-related business	98	99	-	93	2	91	2		
Total agribusiness	35	44	-	34	1	33	1		
Rural residential real estate	133	143	-	127	3	124	3		
Lease receivables	619	773	34	592	12	578	13		
Total	410	450	53	392	8	383	9		
Total	\$ 48,796	\$ 57,809	\$ 2,771	\$ 46,664	\$ 955	\$ 45,609	\$ 1,044		

	December 31, 2010			Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 2,834	\$ 4,472	\$ 235	\$ 2,527	\$ 50
Production and intermediate-term Agribusiness	12,176	12,717	1,656	10,855	220
Processing and marketing Farm-related business	-	-	-	-	-
Total agribusiness	-	-	-	-	-
Rural residential real estate	69	71	22	61	1
Lease receivables	-	-	-	-	-
Total	\$ 15,079	\$ 17,260	\$ 1,913	\$ 13,443	\$ 271
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 11,933	\$ 12,992	\$ -	\$ 10,638	\$ 216
Production and intermediate-term Agribusiness	15,730	20,886	-	14,023	283
Processing and marketing Farm-related business	984	1,019	-	877	18
Total agribusiness	40	47	-	35	1
Total agribusiness	1,024	1,066	-	912	19
Rural residential real estate	554	694	-	494	11
Lease receivables	279	298	-	249	4
Total	\$ 29,520	\$ 35,936	\$ -	\$ 26,316	\$ 533
Total impaired loans:					
Real estate mortgage	\$ 14,767	\$ 17,464	\$ 235	\$ 13,165	\$ 266
Production and intermediate-term Agribusiness	27,906	33,603	1,656	24,878	503
Processing and marketing Farm-related business	984	1,019	-	877	18
Total agribusiness	40	47	-	35	1
Total agribusiness	1,024	1,066	-	912	19
Rural residential real estate	623	765	22	555	11
Lease receivables	279	298	-	249	5
Total	\$ 44,599	\$ 53,196	\$ 1,913	\$ 39,759	\$ 804

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

Commitments to lend additional funds to debtors whose loans were classified as impaired were \$1,100 at June 30, 2011 and \$0 at December 31, 2010.

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

June 30, 2011

	Real Estate Mortgage	Production and Intermediate -term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Total
Allowance for credit losses:								
Balance at December 31, 2010	\$ 1,713	\$ 5,938	\$ 398	\$ 72	\$ 143	\$ 144	\$ 64	\$ 8,472
Charge-offs	(57)	(359)	-	-	-	(5)	(20)	(441)
Recoveries	-	73	-	-	-	-	-	73
Provision for loan losses	51	(253)	188	110	119	5	31	251
Balance at June 30, 2011	\$ 1,707	\$ 5,399	\$ 586	\$ 182	\$ 262	\$ 144	\$ 75	\$ 8,355
June 30, 2011 allowance ending balance:								
Loans individually evaluated for impairment	\$ 305	\$ 2,379	\$ -	\$ -	\$ -	\$ 34	\$ 53	\$ 2,771
Loans collectively evaluated for impairment	\$ 1,402	\$ 3,020	\$ 586	\$ 182	\$ 262	\$ 110	\$ 22	\$ 5,584
Recorded investment in loans outstanding:								
Ending Balance at June 30, 2011	\$ 546,699	\$ 551,479	\$ 104,424	\$ 39,432	\$ 16,459	\$ 23,968	\$ 2,741	\$ 1,285,202
June 30, 2011 recorded investment ending balance:								
Loans individually evaluated for impairment	\$ 14,697	\$ 29,427	\$ 35	\$ -	\$ -	\$ 450	\$ 410	\$ 45,019
Loans collectively evaluated for impairment	\$ 532,002	\$ 522,052	\$ 104,389	\$ 39,432	\$ 16,459	\$ 23,518	\$ 2,331	\$ 1,240,183

December 31, 2010

	Real Estate Mortgage	Production and Intermediate -term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including mission- related)	Total
Allowance for credit losses:									
Balance at December 31, 2009	\$ 3,181	\$ 7,194	\$ 992	\$ 131	\$ 125	\$ 287	\$ 26	\$ -	\$ 11,936
Charge-offs	(1,710)	(4,217)	(586)	-	-	(131)	(63)	-	(6,707)
Recoveries	-	10	56	-	-	-	-	-	66
Provision for loan losses	242	2,951	(64)	(59)	18	(12)	101	-	3,177
Balance at December 31, 2010	\$ 1,713	\$ 5,938	\$ 398	\$ 72	\$ 143	\$ 144	\$ 64	\$ -	\$ 8,472
December 31, 2010 allowance ending balance:									
Loans individually evaluated for impairment	\$ 235	\$ 1,656	\$ -	\$ -	\$ -	\$ 22	\$ -	\$ -	\$ 1,913
Loans collectively evaluated for impairment	\$ 1,478	\$ 4,282	\$ 398	\$ 72	\$ 143	\$ 122	\$ 64	\$ -	\$ 6,559
Recorded investment in loans outstanding:									
Ending Balance at December 31, 2010	\$ 551,274	\$ 563,433	\$ 105,550	\$ 41,011	\$ 19,074	\$ 25,833	\$ 3,570	\$ 4	\$ 1,309,749
December 31, 2010 recorded investment ending balance:									
Loans individually evaluated for impairment	\$ 13,574	\$ 24,274	\$ 921	\$ -	\$ -	\$ 453	\$ 90	\$ -	\$ 39,312
Loans collectively evaluated for impairment	\$ 537,700	\$ 539,159	\$ 104,629	\$ 41,011	\$ 19,074	\$ 25,380	\$ 3,480	\$ 4	\$ 1,270,437

NOTE 4 – COMMITMENTS AND CONTINGENT LIABILITIES

Actions are pending against the Association in which money damages are sought. However, on the basis of information now at hand, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the overall financial position of the Association.

NOTE 5 – EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2011	2010
Pension	\$ 1,536	\$ 1,377
401(k)	234	189
Other postretirement benefits	259	228
Total	<u>\$ 2,029</u>	<u>\$ 1,794</u>

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

	Actual YTD Through 6/30/11	Projected Contributions For Remainder of 2011	Projected Total Contributions 2011
Pension	\$ 10	\$ 2,508	\$ 2,518
Other postretirement benefits	192	248	440
Total	<u>\$ 202</u>	<u>\$ 2,756</u>	<u>\$ 2,958</u>

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

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

NOTE 6 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association’s fair value disclosures for certain assets and liabilities measured at fair value on a recurring and

non-recurring basis. These assets and liabilities consist primarily of assets held in trust funds, standby letters of credit, impaired loans and other property owned.

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

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

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association’s Level 1 assets at June 30, 2011, consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis at June 30, 2011.

Level 3

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

different than the third-party valuation or internal model pricing.

Level 3 assets at June 30, 2011 include impaired loans that represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other property owned is classified as a Level 3 asset at June 30, 2011. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at June 30, 2011 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

June 30, 2011				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 354	\$ -	\$ -	\$ 354
Total Assets	\$ 354	\$ -	\$ -	\$ 354
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 308	\$ 308
Total Liabilities	\$ -	\$ -	\$ 308	\$ 308
December 31, 2010				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 440	\$ -	\$ -	\$ 440
Total Assets	\$ 440	\$ -	\$ -	\$ 440
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 262	\$ 262
Total Liabilities	\$ -	\$ -	\$ 262	\$ 262

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

	Standby Letters Of Credit
Balance at January 1, 2011	\$ 262
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases	-
Sales	-
Issuances	46
Settlements	-
Transfers in and/or out of level 3	-
Balance at June 30, 2011	\$ 308

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 365
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	52
Transfers in and/or out of level 3	-
Balance at June 30, 2010	\$ 417

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

Assets and liabilities measured at fair value on a non-recurring basis at June 30, 2011 and December 31, 2010 for each of the fair value hierarchy values are summarized below:

June 30, 2011					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 16,818	\$ 16,818	\$ (1,226)
Other property owned	\$ -	\$ -	\$ 1,232	\$ 1,232	\$ (855)
December 31, 2010					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 13,166	\$ 13,166	\$ (3,632)
Other property owned	\$ -	\$ -	\$ 2,414	\$ 2,414	\$ (17)

NOTE 7 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association’s financial instruments at June 30, 2011 and December 31, 2010.

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

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

	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	\$ 217	\$ 217	\$ 355	\$ 355
Loans, net of allowance	\$1,276,848	\$ 1,286,571	\$ 1,301,273	\$ 1,296,794
Investment securities	\$ 2,404	\$ 2,597	\$ 2,396	\$ 2,597
Assets held in trust funds	\$ 354	\$ 354	\$ 440	\$ 440
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$1,063,320	\$ 1,065,013	\$ 1,103,815	1,100,753

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

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

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

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

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

- C. **Investment in AgFirst Farm Credit Bank:** Estimating the fair value of the Association’s investment in the Bank is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 8.25 percent of the issued stock of the Bank as of June 30, 2011 net of any reciprocal investment. As of that date, the Bank’s assets totaled \$30.1 billion and shareholders’ equity totaled \$2.1 billion. The Bank’s earnings were \$208 million during the first six months of 2011.

In addition, the Association has an investment of \$74 related to other Farm Credit institutions.

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

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

- E. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.
- F. **Assets Held in Trust Funds:** See Note 5 for discussion of estimation of fair value for this instrument.

NOTE 8 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and except for the below event, has determined there are no other subsequent events requiring disclosure through August 8, 2011, which is the date the financial statements were issued.

Subsequent to quarter end, the Association was informed of a failure to perform by a proposed purchaser in proceedings involving a borrower in bankruptcy. The Association recognized an estimate of loss related to this borrower and recorded it as an Other noninterest expense at June 30, 2011. Based on the latest estimates, the Association, as a result of this action, could possibly incur additional loss of between \$249 and \$567. The Association does not consider this amount to be material to the financial statements for the period ended June 30, 2011, and will continue to evaluate as events approach resolution.