Puerto Rico Farm Credit, ACA

SECOND QUARTER 2011

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2011 quarterly report of Puerto Rico 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.

Juan A. Santiago
Chairman of Board of Directors

Ricardo L. Fernández
Chief Executive Officer

Antonio Marichal
Member of Board of Directors
Chairman of the Audit Committee

Nydia J. Acevedo
Controller

August 8, 2011

Puerto Rico Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

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

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

Ricardo L. Fernández
Chief Executive Officer

N J Acevedo

Nydia J. Acevedo
Controller

August 8, 2011

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

(dollars in thousands)

The following commentary reviews the consolidated financial condition and results of operations of Puerto Rico Farm Credit, ACA (Association) for the six months ended June 30, 2011. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, and the 2010 annual report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related business for financing short and intermediate-term loans and long-term real estate mortgage loans. The Association also maintains a portfolio of purchased loans, originated by other Farm Credit System entities and non-system entities. The Association's predominant chartered territory agricultural commodities were dairy, livestock, field crops and fruits which totaled approximately $102,242 or 51.52 percent of all outstanding loan volume at June 30, 2011.

The outstanding loan volume of the Association at June 30, 2011 was $182,937, a decrease of $5,469 or 2.90 percent as compared to $188,406 at December 31, 2010. Loans originated within the Association's chartered territory were higher by approximately $953, while participation loans purchased decreased by approximately $6,422.

Net loans outstanding at June 30, 2011 totaled $179,937 as compared to $184,403 at December 31, 2010. Net loans at June 30, 2011 made up 90.3 percent of total assets, higher than the 89.4 percent at December 31, 2010.

As a percentage of outstanding loans, nonaccrual loans equaled 8.86 percent at June 30, 2011, compared with 7.39 percent at December 31, 2010. The increase in the percentage of nonaccrual loan volume during the first six months of 2011 occurred primarily as a result of transferring various participation loans into nonaccrual from the ethanol, poultry and forestry industries. In addition, various chartered territory loans were transferred into nonaccrual. Some chartered territory borrowers have continued to find it difficult to maintain payments current, given the recessionary economic status. However, the overall delinquency rate for the chartered territory accruing loan portfolio has remained stable, as a result of good credit administration practices and lower interest rate environment. The significant increase in both the number of loans and the volume of loans transferred to nonaccrual during the past six months has resulted in a decline in the loan portfolio's overall credit quality. Management continues to monitor and remains cautious about the credit quality of certain participation loans through the end of 2011.

The allowance for loan losses decreased by $1,003 to $3,000 at June 30, 2011, from $4,003 at December 31, 2010. The decrease was due primarily to the charge offs recorded on two nonaccrual ethanol loans and the change in the specific reserves established for loans continuing in nonaccrual status. During the first quarter, one ethanol participation loan was transferred to nonaccrual which required a higher than expected specific reserve. In addition, during the second quarter, another nonaccrual ethanol loan was liquidated with an additional charge off requirement. The ratio of allowance to outstanding loan volume decreased to 1.64 percent at June 30, 2011 from 2.12 percent at December 31, 2010 as a result of the charge offs recorded which decreased the level of nonaccrual loan volume that required related specific reserves. During the first six months of 2011, charge-offs net of recoveries totaled $1,675. Management anticipates additional provision expense and charge off activity during the balance of 2011, related to the participation portfolio. Several industries in the United States, in which the Association participated loans such as, ethanol, forestry and poultry, are experiencing economic hardship, thereby, reducing the repayment capacity of specific borrowers.

RESULTS OF OPERATIONS

For the three months ended June 30, 2011

For the second quarter of 2011, the Association recognized net loss of $(289), a decrease of $465 when compared to a net gain from operations of $176 for the second quarter of 2010. The primary driver of this decrease was an increase of $691 in the quarterly provision expense for loan losses.

Net interest income for the three months ended June 30, 2011 was $984 compared to $1,004 for the three months ended June 30, 2010. Interest income decreased year-over-year primarily due to lower accruing loan volume, because various loans were transferred to nonaccrual status. This was offset by a reduction in the cost of funds and improved spreads on the new money disbursed which sustained net interest income.

Noninterest income for the second quarter of 2011 was $532 compared to $580 for the second quarter of 2010. The year-over-year decrease was primarily related to a reduction in the income from the equity in earnings of other FC Institutions due to the decrease in the average daily balance of the outstanding loans offset by an AgFirst cash special dividend of $97 at June 30, 2011.

For the second quarter of 2011, noninterest expense decreased by $294, from $1,428 to $1,134 as compared to the second quarter of 2010. The decrease for the quarter was primarily related to a reduction in salaries and benefits expense partially offset by other unbudgeted operating expenses mainly related with the FCA supervisory agreement.

For the six months ended June 30, 2011

For the six months ended June 30, 2011, the Association recognized net loss of $71. This was a decrease of $1,458 as compared to a net income of $1,387 for the first six months of 2010. The decrease primarily resulted from an increase of provision expense to record the charge offs.

During the first six months of 2011, interest income, primarily from accruing loans decreased by $410 or 10.79 percent. Interest expense related to the notes payable to AgFirst FCB (the Bank) decreased by $392 or 17.88 percent. Thus, net interest income decreased by $18 or 0.87 percent. The decrease in net interest income was due primarily to the significant decline in accruing loan volume.

For the first six months of 2011 the Association recorded a provision for loan losses expense which totaled $671. This compared to provision expense for the first six months of 2010 which totaled $(233) for an increase of $904 year-over-year primarily due to the charge offs recorded for the two ethanol participation loans.

Noninterest income for the first half of 2011 was $858 or 51.85 percent lower than the $1,782 recognized during the first half of 2010. The decrease was primarily attributable to the non-recurring income of $704 refund distributions received from the FCSIC during the first quarter of 2010. It is not anticipated that the Association will receive any additional refunds from the FCSIC during 2011.

Noninterest expense for the six months ended June 30, 2011 decreased by $386 or 14.38 percent compared to the same six month period of 2010. The decrease was primarily related to a reduction of salaries and employee benefits of $477 partially offset by an increase of $79 due to other unbudgeted operating expenses mainly related with the FCA supervisory agreement.

Although the Association is subject to federal income tax, the Association does not expect to incur a federal tax liability due to the 2010 taxable loss carryforward. Thus, no provision for income taxes has been recognized.

Key Results of Operations Ratios

	Annualized for the six months ended 6/30/11	For the year ended 12/31/10
Return on Average Assets	(0.07)%	(3.22)%
Return on Average Equity	(0.31)%	(13.13)%
Net Interest Income as a Percentage of Average Earning Assets	2.28%	1.77%

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

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 funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate notes are utilized by the Association to fund variable rate loan advances and operating funds requirements.

The total notes payable to the Bank at June 30, 2011 were $149,877 as compared with $156,743 at December 31, 2010. The decrease of $6,866 or 4.38 percent corresponded closely to the decrease in outstanding loan volume of $5,469.
The Association had no lines of credit outstanding with third parties as of June 30, 2011.

Funds Management

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers variable and fixed rate loan products which are competitively priced according to local market rates. Variable rate loans are generally indexed to either the Prime rate or the London Interbank Offered Rate (LIBOR). The majority of the interest rate risk in the Association balance sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control interest rate risk associated with the loan portfolio.

CAPITAL RESOURCES

Total members' equity at June 30, 2011 decreased .09 percent to $46,305 from December 31, 2010 when total members' equity was $46,349. The decrease of $44 was primarily attributable to the year-to-date net loss which totaled $71 at June 30, 2011 offset by the $21 amortization of the accumulated other comprehensive loss.

Total capital stock and participation certificates were $664 on June 30, 2011 compared to $679 on December 31, 2010. The decrease of $15 was the net result of refunding more stock to non-borrowing stockholders than new stockholders purchasing capital stock or participation certificates.

Unallocated retained earnings decreased $71 or 0.15 percent from December 31, 2010 when unallocated retained earnings totaled $45,878. The decrease was from a net loss of $71 during the first six months of 2011.

The Association's regulatory permanent capital ratio at June 30, 2011 was 18.82 percent compared to 20.84 percent at December 31, 2010. The Association's total surplus and core surplus ratios were both 18.45 percent at June 30, 2011. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

Key financial condition ratios were as follows:

	6/30/11	12/31/10
Total Members' Equity to Asset	23.25%	22.48%
Debt to Total Members' Equity	3.30:1	3.45:1

REGULATORY MATTERS

FCA Supervisory Agreement

As disclosed in the 2010 annual report, on March 17, 2011 the Farm Credit Administration (FCA) entered into a written Supervisory Agreement (SA) with the Board of Directors of the Association. This agreement superseded FCA Supervisory Letters dated July 23, 2009, March 2, 2010, and December 10, 2010 and incorporated certain requirements from these letters. The Supervisory Agreement requires the Board of Directors to take certain corrective and precautionary measures with respect to some Association practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality, allowance for loan losses and collateral risk management, and capital markets and participation activities. In addition, the SA prohibits the Association from distributing patronage-sourced income without FCA consent.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, high turnover in senior management, perceived weaknesses in board governance, certain internal controls and reduced earnings and liquidity. The Board of Directors and the Association have met several milestones in compliance with the agreement including the following:

- Hiring a board consultant to assist them in fulfilling its fiduciary duties and improving board operations and governance.
- Updating its board committee charters and undergoing several training sessions to improve governance of the Association.
- Revising the director candidate nominating procedures to qualify new candidates.
- Hiring a new CEO beginning on February 1, 2011 to lead the Association after the retirement of the previous CEO on June 30, 2010.
- Overseeing the implementation of updated collateral risk management policies and procedures.
- Improving the methodology used to calculate the Allowance for Loan Losses of the Association.
- Hiring a specialized third party auditor to assess the capital markets portfolio credit risk and strengthen credit policies and procedures.
- Revising the financial condition of borrowers in the participation loan portfolio.
- Establishing a Compliance Committee to monitor management's progress in implementing the corrective actions of items identified in the SA.
- Ensuring that FCA's recommendations are incorporated in the various action plans.
- Reviewing the Association's internal audit plan to focus on areas where perceived weaknesses were identified.
- Establishing an asset quality improvement plan to monitor management efforts in managing high risk loans.

All required measures have not been achieved or completed as of the date of this report and the Board of Directors continues to work with the new management team in improving the areas identified in the Supervisory Agreement. Besides the ongoing corrective actions already mentioned, other actions being taken target the following areas.

- Improving board efficacy in overseeing the Association's business practices by updating board policies.
- Establishing a succession plan and human capital plan to ensure the Association's continued operation.
- Establishing direction and strategic priorities for the Association via a revised business plan.

- Improving the calculation for the Allowance for Loan Losses to fully reflect the risk of the credit portfolio.
- Strengthening the capital markets portfolio policies and procedures.
- Developing strategies for growing the Association's loan portfolio with high quality loans to improve asset quality and enhance earnings and liquidity.

The Board of Directors will continue engaging a board consultant to provide advice in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement.

Both the Board of Directors and Senior Management are committed to continuing the administration of the Association in a sound manner, compliant with all FCA Regulations.

FCA 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.

Recently Issued Accounting Pronouncements

Please refer to Note 1, *"Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements",* in the Notes to the Financial Statements, and the 2010 Annual Report to Shareholders for recently issued accounting pronouncements.

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 its website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-981-3323, or writing Nydia J. Acevedo, Controller, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936-3649, or accessing the website, *www.puertoricofarmcredit.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 Association.

Puerto Rico Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2011	June 30, 2010	December 31, 2010
	(unaudited)	(unaudited)	(audited)
Assets			
Cash	$ 231	$ 195	$ 928
Loans	182,937	208,038	188,406
Less: allowance for loan losses	3,000	2,319	4,003
Net loans	179,937	205,719	184,403
Notes receivable from other Farm Credit institutions (Note 5)	10,000	10,000	10,000
Accrued interest receivable	688	784	579
Investments in other Farm Credit institutions	3,162	3,679	3,162
Premises and equipment, net	961	1,041	980
Other property owned	2,155	1,423	2,443
Due from AgFirst Farm Credit Bank	599	693	1,658
Other assets	1,463	2,155	2,036
Total assets	$ 199,196	$ 225,689	$ 206,189
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 149,877	$ 167,227	$ 156,743
Accrued interest payable	294	358	334
Other liabilities	2,720	2,060	2,763
Total liabilities	152,891	169,645	159,840
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	664	690	679
Unallocated retained earnings	45,807	54,610	45,878
Accumulated other comprehensive income (loss)	(166)	744	(208)
Total members' equity	46,305	56,044	46,349
Total liabilities and members' equity	$ 199,196	$ 225,689	$ 206,189

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Operations

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2011	For the three months ended June 30, 2010	For the six months ended June 30, 2011	For the six months ended June 30, 2010
Interest Income				
Loans	$ 1,649	$ 1,860	$ 3,391	$ 3,801
Notes receivable from other Farm Credit institutions (Note 5)	225	225	450	450
Total interest income	1,874	2,085	3,841	4,251
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	890	1,081	1,801	2,193
Net interest income	984	1,004	2,040	2,058
Provision for (reversal of allowance for) loan losses	671	(20)	671	(233)
Net interest income after provision for (reversal of allowance for) loan losses	313	1,024	1,369	2,291
Noninterest Income				
Loan fees	69	68	127	142
Patronage rebate fees	59	62	117	125
Equity in earnings of other Farm Credit institutions	397	449	696	804
Gains (losses) on other property owned, net	5	(1)	(97)	(2)
FCSIC FAC stock refund	—	—	—	451
Insurance Fund refunds	—	—	—	253
Other noninterest income	2	2	15	9
Total noninterest income	532	580	858	1,782
Noninterest Expense				
Salaries and employee benefits	760	1,127	1,533	2,010
Occupancy and equipment	72	64	140	127
Insurance Fund premium	24	5	50	51
Other operating expenses	278	232	575	496
Total noninterest expense	1,134	1,428	2,298	2,684
Income (loss) before income taxes	(289)	176	(71)	1,389
Provision for income taxes	—	—	—	2
Net income (loss)	$ (289)	$ 176	$ (71)	$ 1,387

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2009	$ 721	$ 53,208	$ 745	$ 54,674
Comprehensive income				
Net income		1,387		1,387
Employee benefit plans adjustments			(1)	(1)
Total comprehensive income				1,386
Capital stock/participation certificates issued/(retired), net	(31)			(31)
Patronage distribution adjustment		15		15
Balance at June 30, 2010	$ 690	$ 54,610	$ 744	$ 56,044
Balance at December 31, 2010	$ 679	$ 45,878	$ (208)	$ 46,349
Comprehensive income (loss)				
Net income (loss)		(71)		(71)
Employee benefit plans adjustments			42	42
Total comprehensive income (loss)				(29)
Capital stock/participation certificates issued/(retired), net	(15)			(15)
Balance at June 30, 2011	$ 664	$ 45,807	$ (166)	$ 46,305

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

Notes to the Consolidated Financial Statements

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

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

The accompanying financial statements include the accounts of Puerto Rico 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 of the Association. These unaudited second quarter 2011 consolidated financial statements should be read in conjunction with the 2010 Annual Report of the Association.

The accompanying consolidated financial statements contain all necessary adjustments 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 indicative of the results to be expected for the year ending December 31, 2010.

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 delays 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 District's financial condition and results of operations, but it will result in additional disclosures.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period were effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in significant additional disclosures (see Note 2).

Effective January 1, 2010, the Association adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 7).

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

Note 2 — Loans and Allowance for Loan Losses

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

	June 30, 2011	December 31, 2010
Real estate mortgage	$ 114,623	$ 113,847
Production and intermediate-term	29,727	30,692
Agribusiness		
Loans to cooperatives	439	–
Processing and marketing	11,287	15,228
Farm-related business	1,134	1,326
Total agribusiness	12,860	16,554
Communication	4,400	5,175
Energy	2,465	2,711
Rural residential real estate	18,862	19,427
Total Loans	$ 182,937	$ 188,406

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	$ 1,435	$ 10,654	$ 811	$ –	$ 1,692	$ –	$ 3,938	$ 10,654
Production and intermediate-term	16,253	–	2,299	–	1,368	–	19,920	–
Agribusiness								
Loans to cooperatives	440	–	–	–	–	–	440	–
Processing and marketing	10,438	–	–	–	843	–	11,281	–
Farm-related business	–	–	–	–	1,059	–	1,059	–
Total agribusiness	10,878	–	–	–	1,902	–	12,780	–
Communication	4,411	–	–	–	–	–	4,411	–
Energy	2,471	–	–	–	–	–	2,471	–
Total	$ 35,448	$ 10,654	$ 3,110	$ –	$ 4,962	$ –	$ 43,520	$ 10,654

	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	$ 2,036	$ 10,464	$ 1,230	$ –	$ 2,043	$ –	$ 5,309	$ 10,464
Production and intermediate term	16,323	–	2,320	–	1,459	–	20,102	–
Agribusiness								
Processing and marketing	14,376	–	–	–	902	–	15,278	–
Farm-related business	170	–	–	–	1,128	–	1,298	–
Total agribusiness	14,546	–	–	–	2,030	–	16,576	–
Communication	5,188	–	–	–	–	–	5,188	–
Energy	2,719	–	–	–	–	–	2,719	–
Total	$ 40,812	$ 10,464	$ 3,550	$ –	$ 5,532	$ –	$ 49,894	$ 10,464

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 33.68 percent of loans had maturities of less than one year:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 22,972	$ 53,789	$ 37,862	$ 114,623
Production and intermediate-term	22,930	4,493	2,304	29,727
Agribusiness				
Loans to cooperatives	414	25	–	439
Processing and marketing	8,147	1,651	1,489	11,287
Farm-related business	8	67	1,059	1,134
Total agribusiness	8,569	1,743	2,548	12,860
Communication	4,400	–	–	4,400
Energy	2,465	–	–	2,465
Rural residential real estate	284	343	18,235	18,862
Total Loans	$ 61,620	$ 60,368	$ 60,949	$ 182,937

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

	June 30, 2011	December 31, 2010
Real estate mortgage:		
Acceptable	82.88%	83.56%
OAEM	3.74	3.39
Substandard/doubtful/loss	13.38	13.05
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	68.10%	66.47%
OAEM	5.76	19.10
Substandard/doubtful/loss	26.14	14.43
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	60.85%	53.87%
OAEM	24.84	24.14
Substandard/doubtful/loss	14.31	21.99
	100.00%	100.00%
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2011	December 31, 2010
Total agribusiness:		
Acceptable	65.63%	57.56%
OAEM	21.80	22.21
Substandard/doubtful/loss	12.57	20.23
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	91.27%	91.29%
OAEM	4.97	1.64
Substandard/doubtful/loss	3.76	7.07
	100.00%	100.00%
Total Loans:		
Acceptable	80.78%	79.97%
OAEM	5.32	7.28
Substandard/doubtful/loss	13.90	12.75
	100.00%	100.00%

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

	June 30, 2011					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,941	$ 5,598	$ 7,539	$ 107,502	$ 115,041	$ –
Production and intermediate-term	2,137	3,985	6,122	23,692	29,814	–
Agribusiness						
Loans to cooperatives	–	–	–	440	440	–
Processing and marketing	–	1,019	1,019	10,306	11,325	–
Farm-related business	–	–	–	1,137	1,137	–
Total agribusiness	–	1,019	1,019	11,883	12,902	–
Communication	–	–	–	4,401	4,401	–
Energy and water/waste disposal	–	–	–	2,465	2,465	–
Rural residential real estate	626	359	985	17,942	18,927	–
Total	$ 4,704	$ 10,961	$ 15,665	$ 167,885	$ 183,550	$ –

	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	$ 1,455	$ 5,673	$ 7,128	$ 107,036	$ 114,164	$ 3
Production and intermediate-term	–	2,388	2,388	28,384	30,772	–
Agribusiness						
Processing and marketing	–	251	251	15,025	15,276	–
Farm-related business	–	–	–	1,329	1,329	–
Total agribusiness	–	251	251	16,354	16,605	–
Communication	–	–	–	5,177	5,177	–
Energy and water/waste disposal	–	–	–	2,711	2,711	–
Rural residential real estate	603	195	798	18,683	19,481	31
Total	$ 2,058	$ 8,507	$ 10,565	$ 178,345	$ 188,910	$ 34

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	$ 7,746	$ 7,179
Production and intermediate-term	7,081	3,706
Agribusiness		
Processing and marketing	974	2,736
Rural residential real estate	406	302
Total nonaccrual loans	$ 16,207	$ 13,923
Accruing restructured loans:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	–
Agribusiness		
Processing and marketing	–	–
Rural residential real estate	–	–
Total accruing restructured loans	$ –	$ –
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ 3
Production and intermediate-term	–	–
Agribusiness		
Processing and marketing	–	–
Rural residential real estate	–	31
Total accruing loans 90 days or more past due	$ –	$ 34
Total nonperforming loans	$ 16,207	$ 13,957
Other property owned	2,155	2,443
Total nonperforming assets	$ 18,362	$ 16,400
Nonaccrual loans as a percentage of total loans	8.86%	7.39%
Nonperforming assets as a percentage of total loans and other property owned	9.92%	8.59%
Nonperforming assets as a percentage of capital	39.65%	35.38%

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

	June 30, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	$ 2,851	$ 5,561
Past due	13,356	8,362
Total impaired nonaccrual loans	16,207	13,923
Impaired accrual loans:		
Restructured	–	–
90 days or more past due	–	34
Total impaired accrual loans	–	34
Total impaired loans	$ 16,207	$ 13,957

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

	June 30, 2011			Quarter Ended June 30, 2011		Six Months Ended June 30, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 3,185	$ 3,295	$ 586	$ 3,382	$ 9	$ 3,072	$ 28
Production and intermediate-term	5,635	6,375	706	5,985	15	5,435	50
Agribusiness							
Processing and marketing	–	–	–	–	–	–	–
Total agribusiness	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 8,820	$ 9,670	$ 1,292	$ 9,367	$ 24	$ 8,507	$ 78
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 4,561	$ 6,801	$ –	$ 4,844	$ 12	$ 4,399	$ 40
Production and intermediate-term	1,446	5,917	–	1,535	4	1,395	13
Agribusiness							
Processing and marketing	974	2,513	–	1,034	3	939	9
Total agribusiness	974	2,513	–	1,034	3	939	9
Rural residential real estate	406	440	–	432	1	392	4
Total	$ 7,387	$ 15,671	$ –	$ 7,845	$ 20	$ 7,125	$ 66
Total impaired loans:							
Real estate mortgage	$ 7,746	$ 10,096	$ 586	$ 8,226	$ 21	$ 7,471	$ 68
Production and intermediate-term	7,081	12,292	706	7,520	19	6,830	63
Agribusiness							
Processing and marketing	974	2,513	–	1,034	3	939	9
Total agribusiness	974	2,513	–	1,034	3	939	9
Rural residential real estate	406	440	–	432	1	392	4
Total	$ 16,207	$ 25,341	$ 1,292	$ 17,212	$ 44	$ 15,632	$ 144

	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	$ 3,361	$ 3,489	$ 540	$ 5,153	$ 87
Production and intermediate-term	–	–	–	–	–
Agribusiness					
Processing and marketing	2,407	2,604	771	3,690	62
Total agribusiness	2,407	2,604	771	3,690	62
Rural residential real estate	–	–	–	–	–
Total	$ 5,768	$ 6,093	$ 1,311	$ 8,843	$ 149
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,821	$ 6,894	$ –	$ 5,857	$ 99
Production and intermediate-term	3,706	8,900	–	5,681	96
Agribusiness					
Processing and marketing	329	3,604	–	505	9
Total agribusiness	329	3,604	–	505	9
Rural residential real estate	333	427	–	510	9
Total	$ 8,189	$ 19,825	$ –	$ 12,553	$ 213
Total impaired loans:					
Real estate mortgage	$ 7,182	$ 10,383	$ 540	$ 11,010	$ 186
Production and intermediate-term	3,706	8,900	–	5,681	96
Agribusiness					
Processing and marketing	2,736	6,208	771	4,195	71
Total agribusiness	2,736	6,208	771	4,195	71
Rural residential real estate	333	427	–	510	9
Total	$ 13,957	$ 25,918	$ 1,311	$ 21,396	$ 362

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at June 30, 2011 and December 31, 2010.

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

June 30, 2011	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at December 31, 2010	$ 1,107	$ 153	$ 2,580	$ 17	$ 6	$ 140	$ 4,003
Charge-offs	(23)	(7)	(1,645)	–	–	–	(1,675)
Recoveries	1	–	–	–	–	–	1
Provision for loan losses	94	685	(89)	(9)	–	(10)	671
Balance at June 30, 2011	$ 1,179	$ 831	$ 846	$ 8	$ 6	$ 130	$ 3,000
June 30, 2011 allowance ending balance:							
Loans individually evaluated for impairment	$ 586	$ 706	$ –	$ –	$ –	$ –	$ 1,292
Loans collectively evaluated for impairment	$ 593	$ 125	$ 846	$ 8	$ 6	$ 130	$ 1,708
Recorded investment in loans outstanding:							
Ending Balance at June 30, 2011	$ 115,041	$ 29,814	$ 12,902	$ 4,401	$ 2,465	$ 18,927	$ 183,550
June 30, 2011 recorded investment ending balance:							
Loans individually evaluated for impairment	$ 7,214	$ 7,081	$ 1,019	$ –	$ –	$ –	$ 15,314
Loans collectively evaluated for impairment	$ 107,827	$ 22,733	$ 11,883	$ 4,401	$ 2,465	$ 18,927	$ 168,236

December 31, 2010	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at December 31, 2009	$ 283	$ 44	$ 2,330	$ 19	$ 7	$ 37	$ 2,720
Charge-offs	(2,283)	(5,350)	(488)	–	–	–	(8,121)
Recoveries	14	–	–	–	–	–	14
Provision for loan losses	3,093	5,459	738	(2)	(1)	103	9,390
Balance at December 31, 2010	$ 1,107	$ 153	$ 2,580	$ 17	$ 6	$ 140	$ 4,003
December 31, 2010 allowance ending balance:							
Loans individually evaluated for impairment	$ 540	$ –	$ 771	$ –	$ –	$ –	$ 1,311
Loans collectively evaluated for impairment	$ 567	$ 153	$ 1,809	$ 17	$ 6	$ 140	$ 2,692
Recorded investment in loans outstanding:							
Ending Balance at December 31, 2010	$ 114,164	$ 30,772	$ 16,605	$ 5,177	$ 2,711	$ 19,481	$ 188,910
December 31, 2010 recorded investment ending balance:							
Loans individually evaluated for impairment	$ 6,596	$ 4,947	$ 1,318	$ –	$ –	$ 31	$ 12,892
Loans collectively evaluated for impairment	$ 107,568	$ 25,825	$ 15,287	$ 5,177	$ 2,711	$ 19,450	$ 176,018

NOTE 3 – 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 4 – EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30, 2011	For the six months ended June 30, 2010
Pension	$ 586	$ 540
401(k)/1165(e)	28	36
Other postretirement benefits	118	46
Total	$ 732	$ 622

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	$ -	$ 953	$ 953
Other postretirement benefits	55	53	108
Total	$ 55	$ 1,006	$ 1,061

Contributions in the above table include an allocated estimate of funding for the multi-employer pension plan in which the Association participates. The projected amount may change when a total funding amount and allocation is determined by the pension Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change the contribution 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 5 – NOTES RECEIVABLE FROM OTHER FARM CREDT INSTITUTIONS

In September 2008, the Association used capital reserves to purchase $10,000 total of fixed rate unsecured subordinated notes issued by two other associations in the AgFirst District, both notes due in 2018. The notes receivable are subordinate to all other categories of creditors of the issuing associations, including any claims of the Bank and general creditors, but are senior to all classes of shareholders of the issuing associations. The notes receivable are not considered System debt, and thus are not guaranteed by the System and not insured by the Insurance Corporation. Since the notes receivable are only guaranteed by the issuing Associations, repayment could be negatively impacted by funding, credit, and/or counterparty risks encountered by the two issuing associations in their business operations. As of the end of 2010, and continuing in the first six months of 2011, one of the two Associations' credit portfolio is considered by management to maintain higher risk than average and than when the debt was purchased. The other Association increased its Allowance for Loan Losses substantially in the first quarter of 2011 to provision for expected losses in four loans. If the note receivable from the first Association mentioned above were an eligible loan, it would be a criticized loan impacting the Association's liquidity and ability to fund loan growth. Management expects to collect all interest and principal as contracted. It will also continue to inform the Board of Directors on the financial performance of the Associations on a quarterly basis.

The notes receivable bear interest at an annual fixed rate of 9.00 percent, payable on the fifteenth day of each month, beginning on October 15, 2008. Interest will be deferred if, as of the fifth business day prior to an interest payment date, any applicable minimum regulatory capital ratios are not satisfied by the issuing association(s). A deferral period may not last for more than five consecutive years or beyond the maturity date of the note(s). During such a period, the issuing association(s) may not declare or pay any dividends or patronage refunds, among other certain restrictions, until interest payments are resumed and all deferred interest has been paid. The note(s) may be redeemed, at the issuing association's(s') option, on October 15, 2013, or upon the occurrence of certain defined regulatory events, at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided the issuing association(s) have made payment in full of all amounts then due in respect of their senior indebtedness.

NOTE 6 – NOTES PAYABLE TO AGFIRST FARM CREDIT BANK

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which for 2010 included borrowing base margin, earnings and capital covenants. The Association failed to meet its earnings covenant at December 31, 2010. The default allowed the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. During the first quarter of 2011, the Bank approved a temporary waiver of the December 31, 2010 default and allowed the Association to operate under a special credit agreement (SCA) pursuant to its GFA through August 31, 2011. The Association failed to meet its earnings covenant under the SCA at March 31, 2011 and June 30, 2011. At August 31, 2011, AgFirst will assess revised financial projections and determine whether and under what terms and conditions it will continue the SCA.

NOTE 7 — FAIR VALUE MEASUREMENT

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

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

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

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association had no Level 1 assets or liabilities at June 30, 2011.

Level 2

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

Level 3

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

Level 3 assets at June 30, 2011 included impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value considered 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 was 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 included 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
Liabilities:				
Standby letters of credit	$ –	$ –	$ 36	$ 36
Total Liabilities	$ –	$ –	$ 36	$ 36

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

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	$ 31
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases	–
Sales	–
Issuances	5
Settlements	–
Transfers in and/or out of level 3	–
Balance at June 30, 2011	$ 36

	Standby Letters Of Credit
Balance at January 1, 2010	$ 40
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	(7)
Transfers in and/or out of level 3	–
Balance at June 30, 2010	$ 33

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	$	$	$ 6,530	$ 6,530	$ (1,655)
Other property owned	$	$	$ 130	$ 130	$ (68)

	December 31, 2010				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 4,457	$ 4,457	$ (8,003)
Other property owned	$ –	$ –	$ 2,020	$ 2,020	$ (112)

NOTE 8 — 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	$ 231	$ 231	$ 928	$ 928
Loans, net of allowance	$ 180,551	$ 178,901	$ 184,907	$ 175,775
Notes receivable from other Farm Credit Institutions	$ 10,075	$ 10,946	$ 10,075	$ 10,939
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 150,171	$ 151,230	$ 157,077	$ 156,213

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 balance sheet. The Association owns 0.88 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.

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

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

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

F. **Notes Receivable from Other Farm Credit Institutions:** Fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.

NOTE 9 – 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 under bankruptcy. The Association recognized an estimate of loss in its provision for loan loss at June 30, 2011, related to this borrower. Based on the latest estimates, the Association, as a result of this action, could possibly incur an additional loss of between $15 and $125 thousand.