

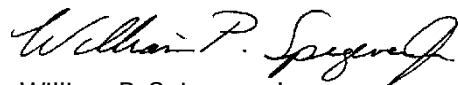
FIRST QUARTER 2011

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2011 quarterly report of AgSouth Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



William P. Spigener, Jr.
Chief Executive Officer



Alisa D. Gunter
Chief Financial Officer



A. Harvey Lemmon
Chairman of the Board

May 9, 2011

AgSouth Farm Credit, ACA

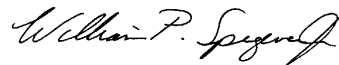
Report on Internal Control Over Financial Reporting

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 affected 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 March 31, 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 March 31, 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 March 31, 2011.



William P. Spigener
Chief Executive Officer



Alisa D. Gunter
Chief Financial Officer

May 9, 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 AgSouth Farm Credit, ACA (Association) for the period ended March 31, 2011. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2010 Annual Report of AgSouth Farm Credit. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

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 wide range of agricultural commodities produced in our region, including poultry (broilers, turkeys and eggs), timber, sod and nursery, field crops and grains, cotton, horses, and beef cattle. Loans to producers of these commodities total \$1,260,769 or 83.61 percent of the Association's portfolio. Farm size varies, and many of the Association customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

During the first quarter of 2011 the Association originated \$28,653 in loans for the secondary market. Originations at the same period 2010 were \$22,446. The 27.65 percent increase is the result of active marketing efforts that are generating some business in most areas of the territory. Rates continue to remain low, which is beneficial to qualifying customers. As of March 31, 2011, the Association held \$820 in qualifying loans for sale.

Georgia Region

The agricultural sector of the Georgia economy is off to a fairly robust start in 2011. High commodity prices have fueled growth in most farm operations including land, equipment, and livestock expansion. In addition, commercial banks in Georgia remain under stress as we begin 2011 and most are not aggressively marketing new loans with many curtailing growth in order to preserve capital which has been hit hard by very high loan losses over the past two years. Both the strong agriculture economy and curtailment in lending by commercial banks have increased loan demand within the Georgia region of AgSouth during the first quarter.

The general economy in Georgia is showing some signs of improvement. Unemployment, which ended 2010 at 10.4 percent, has improved to 10.2 percent at February month end. Even with the improvement Georgia remains one of nine states with 10 percent or higher unemployment. On another positive note, Georgia received a triple-A rating from all three rating agencies: Moody's, Standard and Poor's, and Fitch. Each agency also assigned a "Stable Outlook" rating on the state as well. Moody's recognized conservative fiscal management, moderate debt burden, and well funded pensions in its ratings report.

Crops already in production during the first quarter and financed by the Association include onions, blueberries, carrots, a limited amount of peaches and winter wheat. Most of these crops are rated as good to excellent by the USDA crop reporting service as of April 4, 2011. Onion acres are expected to be up approximately 1500 acres over 2010 acres. The price outlook for onions is down relative to 2010 as the Texas market is much better than last year. Corn is being planted now with peanuts, cotton, and soybeans to follow. Prices on all spring crops are very good at this time and most farmers have locked in prices on a substantial part of their expected production for 2011. Recent rains have also helped alleviate dry conditions that were prevalent over the region, improving planting conditions.

High corn prices have slowed expansion by some poultry integrators, including Pilgrim's, which was expanding fairly rapidly at its newly reopened Douglas, Georgia plant. The recent high feed costs have created negative margins for most integrators. The Association should add approximately \$30 million in grower loans, most of which are USDA guaranteed, during the Douglas expansion.

The forest products and timber industry remains somewhat sluggish; however, there has been recent improvement in lumber prices created by strength in export markets. Saw mills financed by the Association reported a modest profit in 2010 and are presently operating profitably. Log prices have remained low helping their margins. However, low stumpage prices have a negative effect on land owners.

Housing starts improved in 2010 and are expected to continue to increase in 2011 by an estimate of over 20 percent. Even with these increases starts will remain 80 percent below the 2005 and 2006 levels. Raw land sales remain sluggish as well with very few transactions. Timberland values have declined modestly in most regions served by the Association with a more dramatic decline in the northern parts of the Georgia region. Cropland values on good quality farmland have actually seen modest increases over the past year.

Overall loan activity is up first quarter 2011 over 2010 as competition is not nearly as aggressive as in past years. Association management has restricted loan to value requirements in most credits and is being very selective in refinance requests coming from commercial banks. The belief is that there is good business out there and there are opportunities to gain good customers from banks, but caution is being exercised by lending staff.

South Carolina Region

Within the South Carolina region, the primary focal points for 2011 are to decrease nonearning assets, grow the portfolio modestly, retain the net interest margin exhibited at fiscal year end 2010, and to improve fee income over the past

operating cycle. Nonearning assets within the South Carolina region consist primarily of other property owned. The real estate owned by AgSouth in South Carolina includes several tracts located in various areas of the state, but three parcels represent a significant portion of the overall value of these assets. As marketing efforts have unfolded regarding all of these tracts, prospective buyer interest has continually increased and the ability to market other property owned in 2011 appears favorable.

During the first quarter, AgSouth appraisal personnel worked on establishing land sale trends for the South Carolina service area. The results of this study varied from county to county and acreage. Tracts of land located in more rural areas tended to project a lower percentage change than similar land in urban areas or areas closer to urban sprawl. Land in rural counties still utilized as more traditional farms consisting of pasture and cropland have retained value with minimal change reflected. In most areas of the state, as expected, small to moderate size tracts retained value better than the larger parcels. The number of larger tract sales has diminished.

South Carolina's unemployment continues to show improvement with February 2011 lower at 10.2 percent or a 0.3 percent decrease from January 2011 and a reduction of 0.8 percent compared to December 2010. The state projected unemployment rate was the lowest in the past six months and represented the second consecutive monthly decrease. Despite the positive short term projection, South Carolina unemployment continues to remain higher than the national average by 1.3 percent.

Exports within the state projected growth in 2010 with cotton, yarn, and fabrics experiencing the largest percentage increase among the product sectors with an 89 percent increase. The potential for further improvement in exports from the state could be enhanced if the Charleston port could be dredged to improve the depth of the harbor. Efforts are in place to accomplish this task, but funding of the project is the issue. The agricultural and forestry products industries would benefit as discussions center around the use of the former South Carolina Farm Bureau grain export facility in Charleston for future export activities if the dredging of the harbor should take place.

Throughout the first quarter of 2011, much of South Carolina experienced dry conditions, but, fortunately, the entire state received much needed rainfall as the quarter ended. The moisture received should improve spring plantings as vegetables, corn, peanuts, cotton, and soybean plantings progress during the second quarter. Forty-two percent of corn is planted in the state, and winter wheat has just started to head at quarter end. Pastures supplying grazing and hay for livestock in the state were rated only 56 percent good or better as lack of moisture has impacted condition.

Coming off good production and sales in 2010 for most crops and with forecast for farm net income to further improve in 2011, South Carolina farmers are anticipated to plant acreage at least equal to that of 2010. High commodity prices in early 2011 have most farmers considering forward pricing options on some percentage of most crops produced, and an increase in cotton acreage within the state is very likely given historically high prices for this commodity. In combination with an expected increase in national net farm income, farm operating expenses are also expected to increase in 2011. Government payments are expected to decrease in 2011 compared to 2010.

The poultry sector continues to remain profitable, and some expansion has been observed with further expansion of broiler and turkey grow-out units being discussed by integrators. Feed costs are a concern in 2011 as higher costs of feed ingredients could impact integrator profitability.

Housing starts have remained weak nationally, but, with mortgage rates hitting historic lows in October 2010, unit starts have leveled in late 2010 and early 2011. Housing construction remains the key to improvement in sawtimber demand. Prices for sawtimber, chip-n-saw, and pulpwood stumpage trended higher in 2010 compared to 2009, and this trend continues in 2011 but at a gradual pace. The timber sector is full of many different markets that are intertwined in complex and diverse manners, and, accordingly, timberland sales and stumpage prices will remain difficult to forecast over the near term. As the economy continues to strengthen longer term, it is anticipated that the timber sectors will likewise project improvement.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of March 31, 2011, was \$1,507,931, a decrease of \$19,875 or 1.30 percent as compared to \$1,527,806 at December 31, 2010. Net loans outstanding at March 31, 2011 were \$1,499,443 as compared to \$1,519,306 at December 31, 2010. Net loans accounted for 93.42 percent of total assets at March 31, 2011, as compared to 92.69 percent of total assets at December 31, 2010.

The decrease in gross and net loan volume during the reporting period is attributed to paydowns on operating lines scheduled for the first quarter. Advances on existing operating lines have been brisk during the early growing season, but the volume has not been sufficient to make up the difference in paydowns. The Association has curtailed activity in the participations purchased market in order to concentrate on portfolio loan growth and servicing.

At December 31, 2010, the Association held Investment securities totaling \$13,445. These investments are Rural America bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration. At March 31, 2011, Investment securities totaled \$11,660, a

decrease of \$1,785. The 13.28 percent decrease is from normal paydowns of investment balances during the reporting period.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from \$25,295 at December 31, 2010, to \$32,498 at March 31, 2011. This increase is the result of new transfers to nonaccrual status exceeding transfers to other property owned and payouts of loans in nonaccrual status. The balance includes several accounts in excess of \$1,000. Association staff is working diligently to work out all nonaccrual debt situations.

Other property owned increased to \$18,828 at March 31, 2011 from \$16,360 at December 31, 2010. The significant increase of \$2,468 or 15.09 percent in other property owned is the result of the acquisition of several pieces of property taken during the reporting period. The acquisitions included significant acreage tracts in both the Georgia and South Carolina territory served. Additional acquisitions are expected as nonearning assets work through the collection process. The Association is actively marketing all properties for sale. For details, please visit our website at www.agsouthfc.com click on Property For Sale.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2011, was \$8,488 compared to \$8,500 at December 31, 2010, and was considered by management to be adequate to cover possible losses. The slight decrease in the allowance account is the result of net charge-offs and recoveries exceeding the addition to the allowance account during the reporting period. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of senior management and staff assigned to special assets management, met in March to review the allowance account. The ALCO determined that an addition to the allowance account was needed. The Association funded the allowance through the provision for loan loss in the amount of \$1,581 during the first quarter.

Premises and equipment, net decreased \$45 from \$15,362 at December 31, 2010 to \$15,317 at March 31, 2011. The decrease is the result of normal activity within the premises and equipment accounts for the quarter. The Association has purchased a lot in Madison, Georgia on the Highway 441 By Pass. The Association has started construction of the new facility and expects completion to occur in the late fall of 2011.

RESULTS OF OPERATIONS

For the three months ended March 31, 2011

Net income for the three months ended March 31, 2011, totaled \$8,022 as compared to \$9,756 for the same period in 2010. This is a decrease of \$1,734 or 17.77 percent. The commentary below explains the variance.

Net interest income before the provision for loan loss increased \$929 for the three months ended March 31, 2011, as compared to the same period in 2010 due primarily to the increase in margin on new and existing loan volume. Net interest income after the provision for loan losses increased \$830 in the quarter ending March 31, 2011.

The provision for loan loss was \$1,581 in the quarter ending March 31, 2011 as compared to \$1,482 for the quarter ending March 31, 2010. The Association's ALCO made the decision that a provision entry for the quarter ending March 31, 2011 was needed after analyzing the risk in the current portfolio. The analysis included reviewing historical trends, loan size, loan performance, and credit quality reports.

At March 31, 2011, interest income decreased \$164 compared to the same period in 2010. The decrease was due to the decrease in interest income on participation purchased loans and interest income on nonaccrual accounts recognized between the two reporting periods. Nonaccrual income, which is included in interest income, was \$211 for the three months ended March 31, 2011, as compared to \$257 for the same period in 2010.

Interest expense decreased \$1,093 for the three months ended March 31, 2011. The decrease is tied to the lower interest rate environment and the Association's lower balance of Notes Payable to AgFirst Farm Credit Bank.

Noninterest income decreased \$1,894 over the same period last year. Loan fees decreased \$207 or 17.69 percent. In the same period in 2010, there were collections of significant new and annual servicing fees on large accounts. These fees did not reoccur in 2011. Fees for financially related services decreased \$2 from \$178 at March 31, 2010 compared to \$176 at March 31, 2011. The equity in earnings from other Farm Credit institutions increased \$40 from \$2,874 at March 31, 2010 to \$2,914 at March 31, 2011. This is an increase of 1.39 percent.

In the three months ending March 31, 2011, the Association experienced losses on the sale of Other Property Owned in the amount of \$136. During the same period of 2010, the Association booked gains on the sale of Other Property Owned of \$1. The losses were an accumulation of several losses on sales of properties sold during the foreclosure process or recognized when the account was transferred to Other Property Owned.

Gains on the sale of rural home loans increased \$111 from \$271 at March 31, 2010 compared to \$382 at March 31, 2011. The increase in gains is the result of the higher yields on the sales of loans in the secondary mortgage market when compared to the same period of 2010 and the increase in originations between the two reporting periods.

The significant difference in noninterest income is the Insurance Premium Refund received in the first quarter of 2010. This amount totaled \$1,712 and did not reoccur in the first quarter of 2011. Other noninterest income increased \$27 from \$149 at March 31, 2010 compared to \$176 at March 31, 2011. Other noninterest income includes the Association's investment in a long-term deferred compensation account maintained for certain key employees and previous retirees, other miscellaneous income, and refunds from the Association's participation in the Farm Credit Captive insurance program.

Noninterest expense for the three months ended March 31, 2011, increased \$671 or 8.59 percent when compared to the same period of 2010. Salaries and employee benefit expense increased \$498 between the two reporting periods. The increase in salaries and employee benefits is tied to merit pay increases, an increase in expense for Farm Credit Retirement, and an increase in the cost of health care for current and retired employees.

Occupancy and equipment expense at March 31, 2011 was \$576 compared to \$550 for the same period in 2010. The increase is from the normal cost of operations and some timing differences as it relates to property insurance expense and maintenance issues.

The Insurance Fund premium decreased \$121 from \$308 at March 31, 2010 to \$187 at March 31, 2011. The current premium on accruing loans is 6 basis points compared to 10 basis points in March 2010.

Other operating expenses increased \$268 from March 31, 2010, \$1,302 compared to \$1,570 at March 31, 2011. The increase of 20.58 percent is attributed to timing differences in the payment of some insurance expense on automobiles and buildings during the comparative reporting periods, an increase in Farmer Mac fees for loans placed in the in-portfolio guarantee program, and an increase in travel expense due to the higher fuel costs. Other operating expenses also includes travel, communications, advertising, public and member relations, training and all other expenses necessary to run the business.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (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 the 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 March 31, 2011 was \$1,317,692 as compared to \$1,358,611 at December 31, 2010. The decrease is related to the decrease in loan volume between the two reporting periods.

As of March 31, 2011, the Association had invested \$50,000 of its lendable equity in fixed rate notes. These fixed rate notes have maturities ranging from January 2012 through January 2013.

CAPITAL RESOURCES

Total members' equity at March 31, 2011 increased by \$8,732 to \$255,621 from the December 31, 2010 total of \$246,889. The increase is primarily attributed to the earnings of the Association offset by revolvment of allocated equities and the retirement of capital stock and participation certificates during the reporting period. At December 31, 2010, allocated retained earnings totaled \$115,860. At March 31, 2011, the allocated retained earnings had decreased to \$114,157. The variance is the result of the final calculation of patronage distribution for the 2010 year which was completed in the first quarter of 2011. The actual patronage distribution differed from the estimated patronage distribution by \$1,699. The estimate is prepared using November month-end data and projecting through year-end. The estimate was off due to some unanticipated losses on other property owned that occurred in late December 2010.

Total capital stock and participation certificates were \$6,682 on March 31, 2011, compared to \$6,677 on December 31, 2010. The increase is attributed to the purchase of new stock for new borrowing entities in excess of retirement of stock and participation certificates on loans liquidated in the normal course of business.

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 March 31, 2011, the Association's total surplus ratio and core surplus ratio were 14.12 percent and 9.73 percent, respectively, and the permanent capital ratio was 15.90 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

The Association has a portion of the portfolio in an in-portfolio guarantee program with Farmer Mac. The purpose of these guarantees is to improve the Association's capital position. At March 31, 2011, the Association had loans totaling \$49,003 in this program. The cost of the guarantees year to date was \$66. The use of the Farmer Mac in-portfolio guarantee has a positive effect on the Association's capital ratios.

At December 31, 2010, the Association's permanent capital ratio was 14.93 percent. The increase to 15.90 percent permanent capital at March 31, 2011 is the result of the Association's decision to retain income in unallocated surplus, the limited growth on the balance sheet, and the use of various loan guarantee programs, including FSA, SBA and Farmer Mac. The Association has other tools available to strengthen the capital position. These options include selling additional loans to AgFirst and others, placing additional pools of loans with Farmer Mac in the in-portfolio guarantee program, and participating with AgFirst in a capitalized participation pool. All options are being studied should management and the Board determine that steps are necessary to maintain the Association's strong capital position.

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 is seeking comments to facilitate the development of this regulatory capital framework, including 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 has been extended to 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 1-800-310-4805, ext 6737, writing Alisa D. Gunter, CFO, AgSouth Farm Credit, ACA, PO Box 4966, Spartanburg, SC 29305, or accessing the website www.agsouthfc.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.

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2011 <i>(unaudited)</i>	December 31, 2010 <i>(audited)</i>
Assets		
Cash	\$ 1,248	\$ 1,957
Investment securities:		
Held to maturity (fair value of \$12,110 and \$13,724 respectively)	11,660	13,445
Total investment securities	11,660	13,445
Loans	1,507,931	1,527,806
Less: allowance for loan losses	8,488	8,500
Net loans	1,499,443	1,519,306
Loans held for sale	820	620
Accrued interest receivable	14,298	16,249
Investments in other Farm Credit institutions	26,187	26,187
Premises and equipment, net	15,317	15,362
Other property owned	18,828	16,360
Due from AgFirst Farm Credit Bank	2,795	13,894
Other assets	14,470	15,740
Total assets	\$ 1,605,066	\$ 1,639,120
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,317,692	\$ 1,358,611
Accrued interest payable	3,522	3,536
Patronage refund payable	824	8,956
Other liabilities	27,407	21,128
Total liabilities	1,349,445	1,392,231
Commitments and contingencies		
Members' Equity		
Protected borrower stock	109	152
Capital stock and participation certificates	6,573	6,525
Retained earnings		
Allocated	114,157	115,860
Unallocated	135,111	124,660
Accumulated other comprehensive income (loss)	(329)	(308)
Total members' equity	255,621	246,889
Total liabilities and members' equity	\$ 1,605,066	\$ 1,639,120

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

AgSouth Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

For the three months
ended March 31,

(dollars in thousands)

2011 2010

Interest Income

Investment securities	\$ 181	\$ 140
Loans	23,863	24,068
Total interest income	24,044	24,208

Interest Expense

Notes payable to AgFirst Farm Credit Bank	10,293	11,527
Other	147	6
Total interest expense	10,440	11,533

Net interest income	13,604	12,675
Provision for loan losses	1,581	1,482

Net interest income after provision for loan losses	12,023	11,193

Noninterest Income

Loan fees	963	1,170
Fees for financially related services	176	178
Equity in earnings of other Farm Credit institutions	2,914	2,874
Gains (losses) on other property owned, net	(136)	1
Gains (losses) on sale of rural home loans, net	382	271
Gains (losses) on sales of premises and equipment, net	6	20
Insurance Fund refunds	—	1,712
Other noninterest income	176	149
Total noninterest income	4,481	6,375

Noninterest Expense

Salaries and employee benefits	6,146	5,648
Occupancy and equipment	576	550
Insurance Fund premium	187	308
Other operating expenses	1,570	1,302
Total noninterest expense	8,479	7,808

Income before income taxes	8,025	9,760
Provision for income taxes	3	4

Net income	\$ 8,022	\$ 9,756

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

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

(unaudited)

(dollars in thousands)

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2009	\$ 208	\$ 6,277	\$ 111,658	\$ 116,982	\$ (292)	\$ 234,833
Comprehensive income						
Net income				9,756		9,756
Employee benefit plans adjustments					14	14
Total comprehensive income						9,770
Protected borrower equity retired	(43)					(43)
Capital stock/participation certificates issued/(retired), net		69				69
Retained earnings retired			(11)			(11)
Patronage distribution adjustment			(206)	465		259
Balance at March 31, 2010	\$ 165	\$ 6,346	\$ 111,441	\$ 127,203	\$ (278)	\$ 244,877
Balance at December 31, 2010	\$ 152	\$ 6,525	\$ 115,860	\$ 124,660	\$ (308)	\$ 246,889
Comprehensive income						
Net income				8,022		8,022
Employee benefit plans adjustments					(21)	(21)
Total comprehensive income						8,001
Protected borrower equity retired	(43)					(43)
Capital stock/participation certificates issued/(retired), net		48				48
Retained earnings retired			(4)			(4)
Patronage distribution adjustment			(1,699)	2,429		730
Balance at March 31, 2011	\$ 109	\$ 6,573	\$ 114,157	\$ 135,111	\$ (329)	\$ 255,621

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 AgSouth 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 first 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 three months ended March 31, 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 March 31, 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 and guidance for determining what constitutes a troubled debt restructuring will be coordinated.

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 troubled debt restructuring (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 public entities, the guidance is effective for the first interim or annual period beginning on or after June 15, 2011, 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 June 15, 2011. In addition, the delayed TDR disclosures referenced above are also effective for the first interim or annual period beginning on or after June 15, 2011. 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 5).

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 March 31, 2011 and December 31, 2010 follows:

	March 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission related investments	\$ 11,660	\$ 450	\$ -	\$ 12,110	4.57%

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission related investments	\$ 13,445	\$ 279	\$ -	\$ 13,724	4.86%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities held-to-maturity at March 31, 2011 and December 31, 2010 follows:

	March 31, 2011		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-0%
After one year through five years	-	-	-
After five years through ten years	-	-	-
After ten years	11,660	12,110	4.57
Total	\$ 11,660	\$ 12,110	4.57%

	December 31, 2010		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-0%
After one year through five years	-	-	-
After five years through ten years	-	-	-
After ten years	13,445	13,724	4.86
Total	\$ 13,445	\$ 13,724	4.86%

The Association's mission related investments consist of private placement securities purchased under the Rural America Bond Program approved by the FCA.

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 March 31, 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 not more likely than not 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 March 31, 2011.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	March 31, 2011	December 31, 2010
Real estate mortgage	\$ 1,171,749	\$ 1,159,701
Production and intermediate-term Agribusiness	270,744	302,269
Loans to cooperatives	2,559	2,719
Processing and marketing	17,027	17,686
Farm-related business	10,694	10,015
Total agribusiness	30,280	30,420
Rural residential real estate	35,158	35,416
Total Loans	\$ 1,507,931	\$ 1,527,806

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 the changes in the principal balance of participations purchased and sold for the quarter ended March 31, 2011:

Beginning Balance at 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	\$ 5,646	\$ 175,056	\$ -	\$ 4,526	\$ -	\$ 1,950	\$ 5,646	\$ 181,532
Production and intermediate-term Agribusiness	2,943	52,973	2,887	7,693	1,334	(10)	7,164	60,656
Loans to cooperatives	2,501	-	-	-	47	-	2,548	-
Processing and marketing	7,335	22,765	491	-	-	-	7,826	22,765
Total agribusiness	9,836	22,765	491	-	47	-	10,374	22,765
Total	\$ 18,425	\$ 250,794	\$ 3,378	\$ 12,219	\$ 1,381	\$ 1,940	\$ 23,184	\$ 264,953

Purchases and sales for the quarter ended March 31, 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	\$ -	\$ 12,762	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,762
Production and intermediate-term Agribusiness	340	-	-	-	-	-	340	-
Loans to cooperatives	-	-	-	-	-	-	-	-
Processing and marketing	450	-	-	-	-	-	450	-
Total agribusiness	450	-	-	-	-	-	450	-
Total	\$ 790	\$ 12,762	\$ -	\$ -	\$ -	\$ -	\$ 790	\$ 12,762

Other activity for the quarter ended March 31, 2011

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ (4,652)	\$ (12,693)	\$ -	\$ (2,576)	\$ -	\$ (1,950)	\$ (4,652)	\$ (17,219)
Production and intermediate-term Agribusiness	(314)	4,531	(33)	(7,693)	(63)	2	(410)	(3,160)
Loans to cooperatives	(124)	-	-	-	(47)	-	(171)	-
Processing and marketing	(283)	508	(49)	-	-	-	(332)	508
Total agribusiness	(407)	508	(49)	-	(47)	-	(503)	508
Total	\$ (5,373)	\$ (7,654)	\$ (82)	\$ (10,269)	\$ (110)	\$ (1,948)	\$ (5,565)	\$ (19,871)

Ending Balance at March 31, 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	\$ 994	\$ 175,125	\$ -	\$ 1,950	\$ -	\$ -	\$ 994	\$ 177,075
Production and intermediate-term	2,969	57,504	2,854	-	1,271	(8)	7,094	57,496
Agribusiness								
Loans to cooperatives	2,377	-	-	-	-	-	2,377	-
Processing and marketing	7,502	23,273	442	-	-	-	7,944	23,273
Total agribusiness	9,879	23,273	442	-	-	-	10,321	23,273
Total	\$ 13,842	\$ 255,902	\$ 3,296	\$ 1,950	\$ 1,271	\$ (8)	\$ 18,409	\$ 257,844

Purchases and sales represent new participation contracts or major modifications of existing contracts. Other activity may consist of advances on existing participation contracts, payments, chargeoffs, recoveries, and/or classification changes.

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 March 31, 2011 and indicates that approximately 16.96 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	\$ 103,689	\$ 259,458	\$ 808,602	\$ 1,171,749
Production and intermediate-term	133,201	100,608	36,935	270,744
Agribusiness				
Loans to cooperatives	2,400	172	(13)	2,559
Processing and marketing	10,721	5,168	1,138	17,027
Farm-related business	798	5,346	4,550	10,694
Total agribusiness	13,919	10,686	5,675	30,280
Rural residential real estate	5,006	5,707	24,445	35,158
Total Loans	\$ 255,815	\$ 376,459	\$ 875,657	\$ 1,507,931

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 March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010		March 31, 2011	December 31, 2010
Real estate mortgage:			Farm-related business		
Acceptable	93.58%	93.05%	Acceptable	74.80%	80.96%
OAEM	4.09	4.64	OAEM	25.20	19.04
Substandard/doubtful/loss	2.33	2.31	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Total agribusiness		
Acceptable	82.56%	83.46%	Acceptable	71.17%	72.40%
OAEM	9.24	11.21	OAEM	18.53	20.19
Substandard/doubtful/loss	8.20	5.33	Substandard/doubtful/loss	10.30	7.41
	100.00%	100.00%		100.00%	100.00%
Agribusiness:			Rural residential real estate:		
Loans to cooperatives:			Acceptable	91.03%	93.05%
Acceptable	13.00%	13.95%	OAEM	5.73	4.33
OAEM	87.50	86.05	Substandard/doubtful/loss	3.24	2.62
Substandard/doubtful/loss	(0.50)	-		100.00%	100.00%
	100.00%	100.00%	Total Loans:		
Processing and marketing			Acceptable	91.09%	90.73%
Acceptable	77.65%	76.56%	OAEM	5.34	6.25
OAEM	3.94	10.76	Substandard/doubtful/loss	3.57	3.02
Substandard/doubtful/loss	18.41	12.68		100.00%	100.00%
	100.00%	100.00%			

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

March 31, 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	\$ 6,202	\$ 10,003	\$ 16,205	\$ 1,166,558	\$ 1,182,763	\$ -
Production and intermediate-term Agribusiness	2,230	8,153	10,383	263,292	273,675	-
Loans to cooperatives	-	-	-	2,568	2,568	-
Processing and marketing	-	24	24	17,079	17,103	-
Farm-related business	-	-	-	10,755	10,755	-
Total agribusiness	-	24	24	30,402	30,426	-
Rural residential real estate	175	261	436	34,910	35,346	-
Total	\$ 8,607	\$ 18,441	\$ 27,048	\$ 1,495,162	\$ 1,522,210	\$ -

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	\$ 9,762	\$ 5,592	\$ 15,354	\$ 1,155,868	\$ 1,171,222	\$ -
Production and intermediate-term Agribusiness	1,694	6,217	7,911	298,525	306,436	-
Loans to cooperatives	-	-	-	2,728	2,728	-
Processing and marketing	407	472	879	17,093	17,972	-
Farm-related business	63	-	63	9,999	10,062	-
Total agribusiness	470	472	942	29,820	30,762	-
Rural residential real estate	377	456	833	34,748	35,581	-
Total	\$ 12,303	\$ 12,737	\$ 25,040	\$ 1,518,961	\$ 1,544,001	\$ -

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 March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	\$ 15,027	\$ 12,090
Production and intermediate-term	15,436	12,178
Agribusiness		
Loans to cooperatives	(13)	-
Processing and marketing	1,292	472
Farm-related business	1	1
Total agribusiness	1,280	473
Rural residential real estate	755	554
Total nonaccrual loans	<u>\$ 32,498</u>	<u>\$ 25,295</u>
Accruing restructured loans:		
Real estate mortgage	\$ 518	\$ -
Production and intermediate-term	289	123
Agribusiness		
Loans to cooperatives	-	-
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Total accruing restructured loans	<u>\$ 807</u>	<u>\$ 123</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ -	\$ -
Production and intermediate-term	-	-
Agribusiness		
Loans to cooperatives	-	-
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Total accruing loans 90 days or more past due	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	\$ 33,305	\$ 25,418
Other property owned	18,828	16,360
Total nonperforming assets	<u>\$ 52,133</u>	<u>\$ 41,778</u>
Nonaccrual loans as a percentage of total loans	2.16%	1.66%
Nonperforming assets as a percentage of total loans and other property owned	3.41%	2.71%
Nonperforming assets as a percentage of capital	20.39%	16.92%

The following table presents information relating to impaired loans (including accrued interest) at March 31, 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.

	March 31, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 12,189	\$ 8,811
Past due	20,309	16,484
Total impaired nonaccrual loans	<u>32,498</u>	<u>25,295</u>
Impaired accrual loans:		
Restructured	807	123
90 days or more past due	-	-
Total impaired accrual loans	<u>807</u>	<u>123</u>
Total impaired loans	<u>\$ 33,305</u>	<u>\$ 25,418</u>

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

	March 31, 2011			Quarter Ended March 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 5,616	\$ 5,649	\$ 476	\$ 4,788	\$ 38
Production and intermediate-term Agribusiness	7,993	8,363	1,882	6,814	53
Loans to cooperatives	-	-	-	-	-
Processing and marketing	1,292	1,691	4	1,102	9
Farm-related business	-	-	-	-	-
Total agribusiness	1,292	1,691	4	1,102	9
Rural residential real estate	145	145	9	124	1
Total	\$ 15,046	\$ 15,848	\$ 2,371	\$ 12,828	\$ 101
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 9,929	\$ 12,940	\$ -	\$ 8,464	\$ 66
Production and intermediate-term Agribusiness	7,732	9,205	-	6,593	53
Loans to cooperatives	(13)	-	-	(11)	-
Processing and marketing	-	67	-	-	-
Farm-related business	1	25	-	1	-
Total agribusiness	(12)	92	-	(10)	-
Rural residential real estate	610	693	-	519	4
Total	\$ 18,259	\$ 22,930	\$ -	\$ 15,566	\$ 123
Total impaired loans:					
Real estate mortgage	\$ 15,545	18,589	476	\$ 13,252	\$ 104
Production and intermediate-term Agribusiness	15,725	17,568	1,882	13,407	106
Loans to cooperatives	(13)	-	-	(11)	-
Processing and marketing	1,292	1,758	4	1,102	9
Farm-related business	1	25	-	1	-
Total agribusiness	1,280	1,783	4	1,092	9
Rural residential real estate	755	838	9	643	5
Total	\$ 33,305	\$ 38,778	\$ 2,371	\$ 28,394	\$ 224

	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	\$ 6,370	\$ 6,315	\$ 576	\$ 8,822	\$ 5
Production and intermediate-term Agribusiness	1,762	2,006	173	2,440	1
Processing and marketing Farm-related business	471	754	82	653	-
	-	-	-	-	-
Total agribusiness	471	754	82	653	-
Rural residential real estate	305	299	40	423	-
Total	\$ 8,908	\$ 9,374	\$ 871	\$ 12,338	\$ 6
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 5,720	\$ 8,627	\$ -	\$ 7,924	\$ 4
Production and intermediate-term Agribusiness	10,539	12,018	-	14,597	8
Processing and marketing Farm-related business	1	985	-	-	-
	1	25	-	1	-
Total agribusiness	2	1,010	-	1	-
Rural residential real estate	249	302	-	344	-
Total	\$ 16,510	\$ 21,957	\$ -	\$ 22,866	\$ 12
Total impaired loans:					
Real estate mortgage	\$ 12,090	14,942	576	\$ 16,746	\$ 9
Production and intermediate-term Agribusiness	12,301	14,024	173	17,037	9
Processing and marketing Farm-related business	472	1,739	-	653	-
	1	25	82	1	-
Total agribusiness	473	1,764	82	654	-
Rural residential real estate	554	601	40	767	-
Total	\$ 25,418	\$ 31,331	\$ 871	\$ 35,204	\$ 18

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 March 31, 2011 and December 31, 2010.

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans for the quarters ended March 31, 2011 and March 31, 2010:

	Quarter Ended March 31,	
	2011	2010
Interest income which would have been recognized under the original loan terms	\$ 714	\$ 843
Less: interest income recognized	211	257
Foregone interest income	\$ 503	\$ 586

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Rural Residential Real Estate	Total
Allowance for credit losses:					
Balance at December 31, 2010	\$ 6,422	\$ 1,624	\$ 236	\$ 218	\$ 8,500
Charge-offs	(1,281)	(193)	(117)	(3)	(1,594)
Recoveries	1				1
Provision for loan losses	117	1,519	8	(63)	1,581
Balance at March 31, 2011	<u>\$ 5,259</u>	<u>\$ 2,950</u>	<u>\$ 127</u>	<u>\$ 152</u>	<u>\$ 8,488</u>
March 31, 2011 allowance ending balance:					
Loans individually evaluated for impairment	<u>\$ 476</u>	<u>\$ 1,882</u>	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$ 2,371</u>
Loans collectively evaluated for impairment	<u>\$ 4,783</u>	<u>\$ 1,068</u>	<u>\$ 123</u>	<u>\$ 143</u>	<u>\$ 6,117</u>
Recorded investment in loans outstanding:					
Ending Balance at March 31, 2011	<u>\$ 1,182,763</u>	<u>\$ 273,675</u>	<u>\$ 30,426</u>	<u>\$ 35,346</u>	<u>\$ 1,522,210</u>
March 31, 2011 recorded investment ending balance:					
Loans individually evaluated for impairment	<u>\$ 15,022</u>	<u>\$ 16,352</u>	<u>\$ 1,280</u>	<u>\$ 755</u>	<u>\$ 33,409</u>
Loans collectively evaluated for impairment	<u>\$ 1,167,741</u>	<u>\$ 257,323</u>	<u>\$ 29,146</u>	<u>\$ 34,591</u>	<u>\$ 1,488,801</u>

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Rural Residential Real Estate	Total
Allowance for credit losses:					
Balance at December 31, 2009	\$ 6,563	\$ 2,224	\$ 510	\$ 200	\$ 9,497
Charge-offs	(3,460)	(2,766)	(347)	(87)	(6,660)
Recoveries	539	70	-	28	637
Provision for loan losses	2,780	2,096	73	77	5,026
Balance at December 31, 2010	\$ 6,422	\$ 1,624	\$ 236	\$ 218	\$ 8,500
December 31, 2010 allowance ending balance:					
Loans individually evaluated for impairment	\$ 576	\$ 173	\$ 82	\$ 40	\$ 871
Loans collectively evaluated for impairment	\$ 5,846	\$ 1,451	\$ 154	\$ 178	\$ 7,629
Recorded investment in loans outstanding:					
Ending Balance at December 31, 2010	\$ 1,171,222	\$ 306,436	\$ 30,762	\$ 35,581	\$ 1,544,001
December 31, 2010 recorded investment ending balance:					
Loans individually evaluated for impairment	\$ 12,091	\$ 12,301	\$ 472	\$ 554	\$ 25,418
Loans collectively evaluated for impairment	\$ 1,159,131	\$ 294,135	\$ 30,290	\$ 35,027	\$ 1,518,583

NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31,	
	2011	2010
Pension	\$ 1,565	\$ 1,421
401(k)	118	114
Other postretirement benefits	270	223
Total	\$ 1,953	\$ 1,758

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

	Actual YTD Through 3/31/11	Projected Contributions For Remainder of 2011	Projected Total Contributions 2011
Pension	\$ 21	\$ 5,056	\$5,077
Other postretirement benefits	170	612	782
Total	\$ 191	\$ 5,668	\$5,859

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 5 – 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 March 31, 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 March 31, 2011.

Level 3

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

Level 3 assets at March 31, 2011 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement

process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other property owned is classified as a Level 3 asset at March 31, 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 March 31, 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 March 31, 2011 and December 31, 2010 for each of the fair value hierarchy levels:

March 31, 2011				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 760	\$ -	\$ -	\$ 760
Total Assets	\$ 760	\$ -	\$ -	\$ 760
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 18	\$ 18
Total Liabilities	\$ -	\$ -	\$ 18	\$ 18
December 31, 2010				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 725	\$ -	\$ -	\$ 725
Total Assets	\$ 725	\$ -	\$ -	\$ 725
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 78	\$ 78
Total Liabilities	\$ -	\$ -	\$ 78	\$ 78

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2011 and 2010. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first three months of 2011 and 2010.

	Standby Letters Of Credit
Balance at January 1, 2011	\$ 78
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases	-
Sales	-
Issuances	-
Settlements	(60)
Transfers in and/or out of level 3	-
Balance at March 31, 2011	<u>\$ 18</u>

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 94
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	103
Transfers in and/or out of level 3	-
Balance at March 31, 2010	<u>\$ 197</u>

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 March 31, 2011 and December 31, 2010 for each of the fair value hierarchy values are summarized below:

	March 31, 2011				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 7,806	\$ 7,806	\$ (3,092)
Other property owned	\$ -	\$ -	\$ 5,417	\$ 5,417	\$ (94)
	December 31, 2010				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 8,037	\$ 8,037	\$ (5,624)
Other property owned	\$ -	\$ -	\$ 16,643	\$ 16,643	\$ (4,184)

NOTE 6 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present the carrying amounts and fair values of the Association's financial instruments at March 31, 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:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	\$ 1,248	\$ 1,248	\$ 1,957	\$ 1,957
Investment securities	\$ 11,678	\$ 12,110	\$ 13,499	\$ 13,724
Loans, net of allowance	\$ 1,513,723	\$ 1,531,093	\$ 1,535,501	\$ 1,550,018
Assets held in trust funds	\$ 760	\$ 760	\$ 725	\$ 725
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 1,321,214	\$ 1,320,805	\$ 1,362,147	\$ 1,360,654

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

A. Cash:

The carrying value is primarily a reasonable estimate of fair value.

B. Loans:

Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Discount rates are based on the Bank's loan rates as well as management estimates.

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

status is estimated to be the carrying amount of the loan less specific reserves.

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

C. Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 6.41 percent of the issued stock of the Bank as of March 31, 2011 net of any reciprocal investment. As of that date, the Bank's assets totaled \$29.2 billion and shareholders' equity totaled \$2.0 billion. The Bank's earnings were \$103 million during the first three months of 2011.

In addition, the Association has an investment of \$3,019 related to other Farm Credit institutions.

D. Notes Payable to AgFirst Farm Credit Bank:

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

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

E. Commitments to Extend Credit:

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

F. Assets Held in Trust Funds:

See Note 5 for discussion of estimation of fair value for this instrument.

G. Investment Securities:

Fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.

NOTE 7 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through May 9, 2011, which is the date the financial statements were issued.