

SECOND QUARTER 2011

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CERTIFICATION

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



Michael R. Jackson
Chief Executive Officer



Matthew J. Currin
Chief Financial Officer



Ronald J. Allen
Chairman of the Board

August 8, 2011

Cape Fear 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.



Michael R. Jackson
Chief Executive Officer



Matthew J. Currin
Chief Financial Officer

August 8, 2011

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Cape Fear Farm Credit ACA, (Association) for the period 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 businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including swine, poultry, tobacco, and row-crop operations. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income in the area, lessens the level of dependency on any single given commodity. Concentration risk is further mitigated by a portfolio of participation loans purchased or originated and sold.

The gross loan volume of the Association as of June 30, 2011 was \$749,469, an increase of \$31,993 as compared to \$717,476 at December 31, 2010. Net loans outstanding at June 30, 2011, were \$742,280 as compared to \$709,525 at December 31, 2010. Net loans accounted for 92.67 percent of total assets at June 30, 2011, as compared to 91.03 percent of total assets at December 31, 2010.

The increase in gross and net loan volume during the reporting period is attributed to increased demand for credit, particularly within the poultry sector as some expansion has taken place in that industry. The increased demand in poultry was offset by reduced demand in other industries in our portfolio due to some uncertainty within these industries and the general economy as a whole. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak in August and declines in the fall months as farm commodities are marketed and proceeds are applied to the operating loans.

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 \$26,152 at December 31, 2010 to \$31,000 at June 30, 2011. This increase is mainly due to the transfer of certain large credits into nonaccrual throughout 2011.

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 June 30, 2011 was \$7,189, which was less than the December 31, 2010 amount of \$7,951 by \$762. The decrease in the overall allowance was mainly due to charge-offs that occurred on several large nonaccrual credits. The amounts on these larger credits that were deemed uncollectible on these accounts were charged off, therefore eliminating the need for specific reserves at quarter end.

RESULTS OF OPERATIONS

For the three months ended June 30, 2011

Net income for the three months ended June 30, 2011 totaled \$4,056 as compared to \$5,236 for the same period in 2010. The decrease of \$1,180 or 22.54 percent is attributed to an increase in allowance for loan loss provisions of \$1,337 in addition to an increase in noninterest expense of \$362. These items were offset by increases in net interest income of \$408 and an increase in noninterest income of \$111.

Net interest income for the three months ended June 30, 2011 increased \$408 or 7.58 percent compared to June 30, 2010. Interest income on loans decreased by \$553 and interest income from other investments decreased by \$71, while interest income from investment securities decreased by \$13. Interest expense decreased \$1,045 compared to the same period last year. The increase in net interest income was mainly a result of increased margins on loans that was improved by additional earnings on the Association's fixed loanable funds credit with AgFirst Farm Credit Bank (Bank). Nonaccrual income was \$29 for the three months ended June 30, 2011, as compared to \$30 for the same period in 2010.

Noninterest income for the three months ended June 30, 2011 totaled \$2,506 as compared to \$2,395 for the same period of 2010, an increase of \$111. This increase was mainly

due to an increase in gains on sale of premises and equipment, net of \$146, which resulted from the sale of one of the Association's former operating locations. Adding to this increase were Gains on other property owned of \$10, an increase of \$11. These increases were offset by decreases in other noninterest income of \$22, in loan fees of \$11, in equity in earnings of other Farm Credit institutions of \$9 and in fees for financially related services of \$4.

Noninterest expense for the three months ended June 30, 2011 increased \$362 compared to the same period of 2010. This increase was mainly due to an increase in salaries and employee benefits of \$319 and an increase in Insurance Fund premiums of \$86. These increases were offset by decreases of \$34 in occupancy and equipment expense and \$9 in other operating expense.

For the six months ended June 30, 2011

Net income for the six months ended June 30, 2011 totaled \$6,674 as compared to \$10,716 for the same period in 2010. The decrease of \$4,042 or 37.72 percent is attributed primarily to increased allowance for loan loss provisions and noninterest expense offset by an increase in net interest income and noninterest income.

At June 30, 2011, net interest income increased \$666 or 6.21 percent compared to June 30, 2010. Interest income on loans decreased by \$1,356 and interest income from other sources decreased by \$163, while interest expense decreased \$2,185 compared to the same period last year. These decreases are both due to a lower interest rate environment on loan products as well as notes payable to the Bank. Nonaccrual income was \$117 for the six months ended June 30, 2011, as compared to \$190 for the same period in 2010.

Noninterest income for the six months ended June 30, 2011 totaled \$4,911 as compared to \$5,320 for the same period of 2010, a decrease of \$409. This decrease primarily resulted from the non-recurring Insurance Fund refunds of \$788 in 2010 that were not present in 2011. This decrease also included decreases of \$120 in equity earnings of other Farm Credit institutions, \$30 in fees for financially related services, \$12 in other noninterest income and \$4 in gains on sale of rural home loans, net. These decreases were offset by increases in gains on other property owned, net in the amount of \$225, an increase in loan fees of \$186 and an increase in gains on the sale of premises and equipment, net of \$135

Noninterest expense for the six months ended June 30, 2011 increased \$308 compared to the same period of 2010. This increase resulted primarily from increases of \$352 in salaries and employee benefits and \$120 in Insurance fund premiums. These increases were offset by decreases of \$56 in occupancy and equipment expenses and \$8 in other operating expenses.

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 note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2011, were \$658,316 as compared to \$636,329 at December 31, 2010.

CAPITAL RESOURCES

Total members' equity at June 30, 2011 increased to \$131,615 from the December 31, 2010 total of \$124,802. The increase is primarily due to recognition of net income retained as unallocated surplus through the second quarter.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2011, the Association's permanent capital ratio was 16.57 percent and the total surplus ratio and core surplus ratios were both 16.20 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.

REGULATORY MATTERS

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

Financial Regulatory Reform

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

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

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

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

transactions for hedging and risk mitigation purposes will most likely be designated as swap dealers and, as a result, be subject to additional regulatory requirements.

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

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

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-368-5819 ext. 3243, writing Matthew J. Currin, Cape Fear Farm Credit, P. O. Box 2405, Fayetteville, NC 28302, or accessing the website, www.capefearfarmcredit.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.

Cape Fear Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2011 <i>(unaudited)</i>	December 31, 2010 <i>(audited)</i>
Assets		
Cash	\$ 3,241	\$ 4,416
Investment securities:		
Held to maturity (fair value of \$5,729 and \$5,712 respectively)	5,669	5,690
Loans	749,469	717,476
Less: allowance for loan losses	7,189	7,951
Net loans	742,280	709,525
Loans held for sale	176	393
Other investments	15,263	20,356
Accrued interest receivable	6,722	6,134
Investments in other Farm Credit institutions	11,630	11,630
Premises and equipment, net	2,766	2,931
Other property owned	5,643	5,626
Due from AgFirst Farm Credit Bank	2,721	6,641
Other assets	4,889	6,125
Total assets	<u>\$ 801,000</u>	<u>\$ 779,467</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 658,316	\$ 636,329
Accrued interest payable	1,408	1,476
Patronage refund payable	38	7,464
Other liabilities	9,623	9,396
Total liabilities	<u>669,385</u>	<u>654,665</u>
Commitments and contingencies		
Members' Equity		
Protected borrower stock	37	50
Capital stock and participation certificates	2,654	2,634
Retained earnings		
Allocated	34,662	34,552
Unallocated	94,576	87,883
Accumulated other comprehensive income (loss)	(314)	(317)
Total members' equity	<u>131,615</u>	<u>124,802</u>
Total liabilities and members' equity	<u>\$ 801,000</u>	<u>\$ 779,467</u>

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

Cape Fear Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Interest Income				
Investment securities	\$ 71	\$ 84	\$ 143	\$ 166
Loans	9,734	10,287	19,198	20,554
Other investments	210	281	429	569
Total interest income	10,015	10,652	19,770	21,289
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	4,226	5,271	8,374	10,559
Net interest income	5,789	5,381	11,396	10,730
Provision for loan losses	1,337	—	3,991	—
Net interest income after provision for loan losses	4,452	5,381	7,405	10,730
Noninterest Income				
Loan fees	562	573	1,317	1,131
Fees for financially related services	10	14	26	56
Equity in earnings of other Farm Credit institutions	1,760	1,769	3,118	3,238
Gains (losses) on other property owned, net	10	(1)	225	—
Gains (losses) on sale of rural home loans, net	13	13	34	39
Gains (losses) on sales of premises and equipment, net	149	3	135	—
Insurance Fund refunds	—	—	—	788
Other noninterest income	2	24	56	68
Total noninterest income	2,506	2,395	4,911	5,320
Noninterest Expense				
Salaries and employee benefits	2,215	1,896	4,096	3,744
Occupancy and equipment	157	191	349	405
Insurance Fund premium	93	7	180	160
Other operating expenses	437	446	1,017	1,025
Total noninterest expense	2,902	2,540	5,642	5,334
Net income	\$ 4,056	\$ 5,236	\$ 6,674	\$ 10,716

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

Cape Fear 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	\$ 56	\$ 2,645	\$ 21,739	\$ 87,041	\$ (319)	\$ 111,162
Comprehensive income						
Net income				10,716		10,716
Employee benefit plans adjustments					9	9
Total comprehensive income						10,725
Protected borrower equity retired	(6)					(6)
Capital stock/participation certificates issued/(retired), net		(22)				(22)
Patronage distribution adjustment			(114)	154		40
Balance at June 30, 2010	\$ 50	\$ 2,623	\$ 21,625	\$ 97,911	\$ (310)	\$ 121,899
Balance at December 31, 2010	\$ 50	\$ 2,634	\$ 34,552	\$ 87,883	\$ (317)	\$ 124,802
Comprehensive income						
Net income				6,674		6,674
Employee benefit plans adjustments					3	3
Total comprehensive income						6,677
Protected borrower equity retired	(13)					(13)
Capital stock/participation certificates issued/(retired), net		20				20
Patronage distribution adjustment			110	19		129
Balance at June 30, 2011	\$ 37	\$ 2,654	\$ 34,662	\$ 94,576	\$ (314)	\$ 131,615

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

Cape Fear Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

Effective January 1, 2010, the Association adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 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 June 30, 2011 and December 31, 2010 follows:

	June 30, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission related investments	\$ 5,669	\$ 60	\$ -	\$ 5,729	5.01%

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission related investments	\$ 5,690	\$ 22	\$ -	\$ 5,712	5.06%

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

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	-	-	-
After five years through ten years	-	-	-
After ten years	5,669	5,729	5.01
Total	\$ 5,669	\$ 5,729	5.01%

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 June 30, 2011 or December 31, 2010.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes.

Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment as the unrealized losses resulted primarily from non-credit related factors. The Association has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at 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.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	June 30, 2011	December 31, 2010
Real estate mortgage	\$ 265,692	\$ 254,585
Production and intermediate-term	435,800	404,299
Agribusiness:		
Loans to cooperatives	1,747	929
Processing and marketing	15,032	22,113
Farm-related business	14,095	14,756
Total agribusiness	30,874	37,798
Communication	3,404	3,358
Energy	7,706	10,988
Rural residential real estate	5,993	6,448
Total Loans	\$ 749,469	\$ 717,476

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	\$ -	\$ 34,521	\$ -	\$ -	\$ -	\$ 23,143	\$ -	\$ 57,664
Production and intermediate-term	12,345	56,566	-	-	5,419	-	17,764	56,566
Agribusiness								
Loans to cooperatives	1,343	-	-	-	-	-	1,343	-
Processing and marketing	12,214	-	-	-	-	-	12,214	-
Farm-related business	1,011	-	-	-	-	-	1,011	-
Total agribusiness	14,568	-	-	-	-	-	14,568	-
Communication	3,405	-	-	-	-	-	3,405	-
Energy	1,461	38,356	-	-	-	-	1,461	38,356
Total	\$ 31,779	\$ 129,443	\$ -	\$ -	\$ 5,419	\$ 23,143	\$ 37,198	\$ 152,586

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	\$ 593	\$ 37,085	\$ -	\$ 1,429	\$ -	\$ 24,750	\$ 593	\$ 63,264
Production and intermediate-term	15,087	101,861	-	-	6,064	-	21,151	101,861
Agribusiness								
Loans to cooperatives	930	-	-	-	-	-	930	-
Processing and marketing	17,841	-	-	-	-	-	17,841	-
Farm-related business	1,072	-	-	-	-	-	1,072	-
Total agribusiness	19,843	-	-	-	-	-	19,843	-
Communication	3,358	-	-	-	-	-	3,358	-
Energy	1,461	56,230	-	-	-	-	1,461	56,230
Total	\$ 40,342	\$ 195,176	\$ -	\$ 1,429	\$ 6,064	\$ 24,750	\$ 46,406	\$ 221,355

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 22.85 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	\$ 12,377	\$ 67,030	\$ 186,285	\$ 265,692
Production and intermediate-term	131,772	114,552	189,476	435,800
Agribusiness				
Loans to cooperatives	1,334	-	413	1,747
Processing and marketing	10,563	2,782	1,687	15,032
Farm-related business	3,924	6,795	3,376	14,095
Total agribusiness	15,821	9,577	5,476	30,874
Communication	3,402	2	-	3,404
Energy	7,706	-	-	7,706
Rural residential real estate	156	556	5,281	5,993
Total Loans	\$ 171,234	\$ 191,717	\$ 386,518	\$ 749,469

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

	June 30, 2011	December 31, 2010		June 30, 2011	December 31, 2010
Real estate mortgage:			Total agribusiness:		
Acceptable	92.38%	91.48%	Acceptable	82.78%	81.16%
OAEM	3.38	3.45	OAEM	12.79	8.67
Substandard/doubtful/loss	4.24	5.07	Substandard/doubtful/loss	4.43	10.17
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Energy and water/waste disposal:		
Acceptable	89.71%	86.58%	Acceptable	18.89%	13.25%
OAEM	4.92	7.81	OAEM	-	86.75
Substandard/doubtful/loss	5.37	5.61	Substandard/doubtful/loss	81.11	-
	100.00%	100.00%		100.00%	100.00%
Agribusiness:			Communication:		
Loans to cooperatives:			Acceptable	100.00%	100.00%
Acceptable	76.21%	52.28%	OAEM	-	-
OAEM	23.79	47.72	Substandard/doubtful/loss	-	-
Substandard/doubtful/loss	-	-		100.00%	100.00%
	100.00%	100.00%	Rural residential real estate:		
Processing and marketing:			Acceptable	92.73%	89.14%
Acceptable	68.22%	70.02%	OAEM	2.29	2.26
OAEM	23.31	12.74	Substandard/doubtful/loss	4.98	8.60
Substandard/doubtful/loss	8.47	17.24		100.00%	100.00%
	100.00%	100.00%	Total Loans:		
Farm-related business:			Acceptable	89.72%	87.01%
Acceptable	99.07%	99.72%	OAEM	4.60	7.42
OAEM	0.26	0.10	Substandard/doubtful/loss	5.68	5.57
Substandard/doubtful/loss	0.67	0.18		100.00%	100.00%
	100.00%	100.00%			

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

June 30, 2011							
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest	
Real estate mortgage	\$ 1,587	\$ 5,156	\$ 6,743	\$ 261,140	\$ 267,883	\$ -	-
Production and intermediate-term Agribusiness	1,644	5,791	7,435	432,666	440,101	-	-
Loans to cooperatives	-	-	-	1,749	1,749	-	-
Processing and marketing	-	-	-	15,091	15,091	-	-
Farm-related business	-	-	-	14,198	14,198	-	-
Total agribusiness	-	-	-	31,038	31,038	-	-
Communication	-	-	-	3,404	3,404	-	-
Energy and water/waste disposal	-	6,250	6,250	1,456	7,706	-	-
Rural residential real estate	31	75	106	5,929	6,035	-	-
Total	\$ 3,262	\$ 17,272	\$ 20,534	\$ 735,633	\$ 756,167	\$ -	-

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	\$ 553	\$ 1,971	\$ 2,524	\$ 254,023	\$ 256,547	\$ -	-
Production and intermediate-term Agribusiness	3,865	4,565	8,430	399,744	408,174	-	-
Loans to cooperatives	-	-	-	934	934	-	-
Processing and marketing	-	-	-	22,250	22,250	-	-
Farm-related business	-	-	-	14,819	14,819	-	-
Total agribusiness	-	-	-	38,003	38,003	-	-
Communication	-	-	-	3,359	3,359	-	-
Energy and water/waste disposal	-	-	-	11,020	11,020	-	-
Rural residential real estate	99	78	177	6,305	6,482	-	-
Total	\$ 4,517	\$ 6,614	\$ 11,131	\$ 712,454	\$ 723,585	\$ -	-

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	\$ 11,541	\$ 11,635
Production and intermediate-term Agribusiness	12,975	11,774
Loans to cooperatives	-	-
Processing and marketing	-	2,514
Farm-related business	90	27
Total agribusiness	90	2,541
Energy and water/waste disposal	6,250	
Rural residential real estate	144	202
Total nonaccrual loans	<u>\$ 31,000</u>	<u>\$ 26,152</u>
Accruing restructured loans:		
Real estate mortgage	\$ -	\$ 16
Production and intermediate-term Agribusiness	-	-
Loans to cooperatives	-	-
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Energy and water/waste disposal	-	-
Rural residential real estate	-	-
Total accruing restructured loans	<u>\$ -</u>	<u>\$ 16</u>
Total nonperforming loans	\$ 31,000	\$ 26,168
Other property owned	5,643	5,626
Total nonperforming assets	<u>\$ 36,643</u>	<u>\$ 31,794</u>
Nonaccrual loans as a percentage of total loans	4.14%	3.64%
Nonperforming assets as a percentage of total loans and other property owned	4.85%	4.40%
Nonperforming assets as a percentage of capital	<u>27.84%</u>	<u>25.48%</u>

There were no loans accruing and 90 days past due at June 30, 2011 and December 31, 2010.

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	\$ 11,752	\$ 18,623
Past due	19,248	7,529
Total impaired nonaccrual loans	<u>31,000</u>	<u>26,152</u>
Impaired accrual loans:		
Restructured	-	16
90 days or more past due	-	-
Total impaired accrual loans	<u>-</u>	<u>16</u>
Total impaired loans	<u>\$ 31,000</u>	<u>\$ 26,168</u>

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

	June 30, 2011			Quarter Ended June 30, 2011		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	\$ 6,034	\$ 6,498	\$ 1,086	\$ 7,319	\$ 5	\$ 6,425	\$ 23
Production and intermediate-term	7,422	7,462	2,743	9,004	7	7,903	28
Agribusiness							
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-
Total agribusiness	-	-	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-	-	-
Rural residential real estate	16	19	1	19	-	17	-
Total	\$ 13,472	\$ 13,979	\$ 3,830	\$ 16,342	\$ 12	\$ 14,345	\$ 51
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 5,507	\$ 6,293	\$ -	\$ 6,681	\$ 6	\$ 5,863	\$ 21
Production and intermediate-term	5,553	6,094	-	6,735	5	5,912	21
Agribusiness							
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	90	92	-	109	-	96	-
Total agribusiness	90	92	-	109	-	96	-
Energy and water/waste disposal	6,250	11,293	-	7,582	6	6,655	24
Rural residential real estate	128	150	-	156	-	137	-
Total	\$ 17,528	\$ 23,922	\$ -	\$ 21,263	\$ 17	\$ 18,663	\$ 66
Total impaired loans:							
Real estate mortgage	\$ 11,541	\$ 12,791	\$ 1,086	\$ 14,000	\$ 11	\$ 12,288	\$ 44
Production and intermediate-term	12,975	13,556	2,743	15,739	12	13,815	49
Agribusiness							
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	90	92	-	109	-	96	-
Total agribusiness	90	92	-	109	-	96	-
Energy and water/waste disposal	6,250	11,293	-	7,582	6	6,655	24
Rural residential real estate	144	169	1	175	-	154	-
Total	\$ 31,000	\$ 37,901	\$ 3,830	\$ 37,605	\$ 29	\$ 33,008	\$ 117

	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	\$ 7,754	\$ 7,544	\$ 1,106	\$ 9,055	\$ 274
Production and intermediate-term	6,527	6,065	2,287	7,622	230
Processing and marketing	2,514	2,605	317	2,936	92
Farm-related business	27	31	-	31	1
Total agribusiness	2,541	2,636	317	2,967	93
Rural residential real estate	81	79	1	94	3
Total	\$ 16,903	\$ 16,324	\$ 3,711	\$ 19,738	\$ 600
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 3,897	\$ 5,151	\$ -	\$ 4,552	\$ 137
Production and intermediate-term	5,247	6,076	-	6,129	186
Processing and marketing	-	1,301	-	-	(3)
Farm-related business	-	-	-	-	-
Total agribusiness	-	1,301	-	-	(3)
Rural residential real estate	121	152	-	142	4
Total	\$ 9,265	\$ 12,680	\$ -	\$ 10,823	\$ 324
Total impaired loans:					
Real estate mortgage	\$ 11,651	\$ 12,695	\$ 1,106	\$ 13,607	\$ 411
Production and intermediate-term	11,774	12,141	2,287	13,751	416
Processing and marketing	2,514	3,906	317	2,936	89
Farm-related business	27	31	-	31	1
Total agribusiness	2,541	3,937	317	2,967	90
Rural residential real estate	202	231	1	236	7
Total	\$ 26,168	\$ 29,004	\$ 3,711	\$ 30,561	\$ 924

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

The Association had \$7 and \$781 in commitments to lend additional funds to debtors whose loans were classified as impaired at June 30, 2011 and December 31, 2010, respectively.

A summary of changes in the allowance for loan losses and period end recorded investment in loans at June 30, 2011 and December 31, 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	\$ 2,611	\$ 4,675	\$ 541	\$ 20	\$ 65	\$ 39	\$ 7,951	
Charge-offs	(10)	(432)	(900)	-	(3,425)	(50)	(4,817)	
Recoveries	58	6	-	-	-	-	64	
Provision for loan losses	(385)	443	497	(5)	3,402	39	3,991	
Balance at June 30, 2011	<u>\$ 2,274</u>	<u>\$ 4,692</u>	<u>\$ 138</u>	<u>\$ 15</u>	<u>\$ 42</u>	<u>\$ 28</u>	<u>\$ 7,189</u>	
June 30, 2011 allowance ending balance:								
Loans individually evaluated for impairment	<u>\$ 1,086</u>	<u>\$ 2,743</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 3,830</u>	
Loans collectively evaluated for impairment	<u>\$ 1,188</u>	<u>\$ 1,949</u>	<u>\$ 138</u>	<u>\$ 15</u>	<u>\$ 42</u>	<u>\$ 27</u>	<u>\$ 3,359</u>	
Recorded investment in loans outstanding:								
Ending Balance at June 30, 2011	<u>\$ 267,883</u>	<u>\$ 440,101</u>	<u>\$ 31,038</u>	<u>\$ 3,404</u>	<u>\$ 7,706</u>	<u>\$ 6,035</u>	<u>\$ 756,167</u>	
June 30, 2011 recorded investment ending balance:								
Loans individually evaluated for impairment	<u>\$ 11,541</u>	<u>\$ 12,975</u>	<u>\$ 90</u>	<u>\$ -</u>	<u>\$ 6,245</u>	<u>\$ 144</u>	<u>\$ 30,995</u>	
Loans collectively evaluated for impairment	<u>\$ 256,342</u>	<u>\$ 427,126</u>	<u>\$ 30,948</u>	<u>\$ 3,404</u>	<u>\$ 1,461</u>	<u>\$ 5,891</u>	<u>\$ 725,172</u>	

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	\$ 1,932	\$ 6,818	\$ 1,170	\$ 15	\$ 39	\$ 102	\$ 10,076	
Charge-offs	(156)	(344)	-	-	-	-	(500)	
Recoveries	119	104	-	-	-	-	223	
Provision for loan losses	716	(1,903)	(629)	5	26	(63)	(1,848)	
Balance at December 31, 2010	<u>\$ 2,611</u>	<u>\$ 4,675</u>	<u>\$ 541</u>	<u>\$ 20</u>	<u>\$ 65</u>	<u>\$ 39</u>	<u>\$ 7,951</u>	
December 31, 2010 allowance ending balance:								
Loans individually evaluated for impairment	<u>\$ 1,106</u>	<u>\$ 2,287</u>	<u>\$ 317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 3,711</u>	
Loans collectively evaluated for impairment	<u>\$ 1,505</u>	<u>\$ 2,388</u>	<u>\$ 224</u>	<u>\$ 20</u>	<u>\$ 65</u>	<u>\$ 38</u>	<u>\$ 4,240</u>	
Recorded investment in loans outstanding:								
Ending Balance at December 31, 2010	<u>\$ 256,547</u>	<u>\$ 408,174</u>	<u>\$ 38,003</u>	<u>\$ 3,359</u>	<u>\$ 11,020</u>	<u>\$ 6,482</u>	<u>\$ 723,585</u>	
December 31, 2010 recorded investment ending balance:								
Loans individually evaluated for impairment	<u>\$ 12,795</u>	<u>\$ 12,769</u>	<u>\$ 2,638</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 223</u>	<u>\$ 28,425</u>	
Loans collectively evaluated for impairment	<u>\$ 243,752</u>	<u>\$ 395,405</u>	<u>\$ 35,365</u>	<u>\$ 3,359</u>	<u>\$ 11,020</u>	<u>\$ 6,259</u>	<u>\$ 695,160</u>	

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	2010
Pension	\$ 1,110	\$ 1,049
401(k)	101	67
Other postretirement benefits	200	163
Total	\$ 1,411	\$ 1,279

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	\$ 14	\$ 1,793	\$ 1,807
Other postretirement benefits	128	165	293
Total	\$ 142	\$ 1,958	\$ 2,100

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 June 30, 2011 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

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

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose 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 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 June 30, 2011. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at June 30, 2011 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	June 30, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 157	\$ -	\$ -	\$ 157
Total Assets	\$ 157	\$ -	\$ -	\$ 157
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 28	\$ 28
Total Liabilities	\$ -	\$ -	\$ 28	\$ 28

	December 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 157	\$ -	\$ -	\$ 157
Total Assets	\$ 157	\$ -	\$ -	\$ 157
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 61	\$ 61
Total Liabilities	\$ -	\$ -	\$ 61	\$ 61

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 transfer 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	\$ 61
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases	-
Sales	-
Issuances	-
Settlements	(33)
Transfers in and/or out of level 3	-
Balance at June 30, 2011	\$ 28

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 97
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	\$ 90

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

Assets and liabilities measured at fair value on a non-recurring basis during the period 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	\$ -	\$ -	\$ 4,347	\$ 4,347	\$ (4,872)
Other property owned	\$ -	\$ -	\$ 5,919	\$ 5,919	\$ 325

	December 31, 2010				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 11,107	\$ 11,107	\$ 2,692
Other property owned	\$ -	\$ -	\$ 5,974	\$ 5,974	\$ (1,923)

NOTE 6 — 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	\$ 3,241	\$ 3,241	\$ 4,416	\$ 4,416
Loans, net of allowance	\$ 748,978	\$ 761,644	\$ 715,635	\$ 720,654
Investment securities	\$ 5,693	\$ 5,729	\$ 5,714	\$ 5,712
Tobacco Buyout SIIC	\$ 15,263	\$ 16,088	\$ 20,356	\$ 21,354
Assets held in trust funds	\$ 157	\$ 157	\$ 157	\$ 157
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 659,724	\$ 663,487	\$ 637,805	\$ 641,497

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

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

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

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

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

- C. **Investment in AgFirst Farm Credit Bank:** Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 3.24 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. **Tobacco Buyout SIIC:** Fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.
- G. **Assets Held in Trust Funds:** See Note 5 for discussion of estimation of fair value for this instrument.
- H. **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 August 8, 2011, which is the date the financial statements were issued.