

QUARTERLY REPORT

March 31, 2010

AgriBank, FCB & Affiliated Associations



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion is a review of the combined financial position and results of operations of AgriBank, FCB and Affiliated Associations. This information should be read in conjunction with the accompanying financial statements, the notes to the financial statements and the 2009 annual report.

We serve customers in states across America's heartland. AgriBank provides funding to and is owned by its affiliated Associations and other financial institutions. AgriBank and its affiliated Associations are collectively referred to as the District. The Associations are chartered to serve customers in substantially all of Arkansas, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Wisconsin and Wyoming. The Associations provide credit and services to farmers, ranchers, rural residents and agribusinesses.

RESULTS OF OPERATIONS

District net income for the three months ended March 31, 2010 totaled \$335.2 million compared to \$163.3 million for the same period in 2009. The return on average assets increased to 1.81% for the three months ended March 31, 2010 from 0.93% for the comparable period in 2009. The significant increase in net income and the return on average assets reflects the increase in net interest income and non-interest income recorded during the first three months of 2010.

The following table illustrates changes in the significant components of net income:

Increase (decrease) in net income (in millions)	
Three months ended March 31	2010 vs. 2009
Net interest income	\$74.7
Provision for credit losses	22.2
Non-interest income	80.0
Operating expenses	5.4
Asset impairment	7.2
Income taxes	(17.6)
Total change in net income	\$171.9

Net interest income for the three months ended March 31, 2010 increased \$74.7 million or 17.8% compared to the three months ended March 31, 2009. The increase in net interest income was due to the positive effects of changes in volume of \$21.6 million, positive effects of changes in rates of \$51.5 million and a \$1.6 million increase in nonaccrual income. Loans totaled \$59.5 billion at March 31, 2010, which is \$0.7 billion less than the December 31, 2009 balance, reflecting seasonal pay downs consistent with historical experience. Loan growth has continued to be moderate during the first quarter of 2010, reflective of significant pay downs due to retail customers selling their crops after year-end, softening loan demand due to decline in commodity prices, continued adherence to strong credit underwriting standards, and the overall downturn in the U.S. and global economies. The positive impact of changes in rates was due to declining interest rates on debt, including positive funding results related to exercising options on callable debt and other funding actions as well as widening spreads on new and repricing volume.

Information regarding the year-to-date average daily balances (ADB) and annualized average rates earned and paid on our portfolio follows:

(in millions)				
Three months ended	2010		2009	
	ADB	Rate	ADB	Rate
March 31, 2010				
Earning assets:				
Accrual loans	\$58,298.5	5.09%	\$55,720.1	5.30%
Nonaccrual loans	1,155.2	2.52%	853.7	2.65%
Investments and federal funds	12,200.4	1.26%	11,317.0	1.95%
Other earning assets	264.3	5.34%	301.4	5.45%
Total earning assets	71,918.4	4.40%	68,192.2	4.72%
Total interest bearing liabilities	61,823.3	1.92%	59,290.6	2.60%
Total interest rate spread		2.48%		2.12%
Impact of equity financing	\$10,095.1	0.27%	\$8,901.6	0.34%
Net interest margin		2.75%		2.46%

Net interest margin has increased by 29 basis points over the same period last year due to a 36 basis point increase in interest rate spread offset by a 7 basis point decline in the impact of equity financing. Equity financing represents the benefit of non-interest bearing funding, which was negatively impacted by falling interest rates.

The District's average interest rate spread on earning assets was 2.48% for the first quarter of 2010, compared to 2.12% in the first quarter of 2009. The increased interest rate spread was due to declining interest rates on loans which was more than offset by declining interest rates on debt, including positive funding results related to exercising callable debt and other funding actions. Additionally, associations widened their spreads on new and repricing volume since one year ago, primarily in the variable rate product.

Changes in loan volumes are discussed in the Loan Portfolio section of this report.

The District's provision for credit losses for the first quarter of 2010 was \$76.3 million compared to \$98.5 million during the same period in 2009. The amounts reflect changes in portfolio risk during the periods. At the end of the first quarter of 2009, there was significant stress in the ethanol industry and large specific reserves were recorded. The loan portfolios are experiencing some stress particularly in the sectors where corn is a significant input cost, primarily pork and dairy. Timber has also experienced deterioration, reflecting issues in the housing market. The District's provision also includes a \$3.6 million reserve on an unfunded commitment of a District Association. There has been an increase in specific reserves primarily related to dairy in 2010. At March 31, 2010, specific reserve totaled \$191.8 million compared to \$166.5 million at December 31, 2009.

The change in non-interest income for the first three months of 2010 results primarily from a \$71.2 million increase in other gains due to our share of distributions from Allocated Insurance Reserve Accounts (AIRA). These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance fund beyond the required 2% of insured debt. In addition, non-interest income also increased due to a \$6.3 million increase in mineral income following successful well completions plus strong lease and exploration activities, and a \$7.1 increase in acquired property income, offset by a \$4.6 million decrease in loan prepayment and fee income.

The decrease in operating expenses resulted primarily from a \$14.2 million decrease in Farm Credit System Insurance Corporation premiums primarily due to a decrease in the premium rate to 10 bps compared to 20 bps in 2009. This was offset by a \$3.3 million increase in salaries due to annual merit increases as well as an increase in head count by 3.1% from March 2009 to March 2010 and a \$5.1 million increase in benefits expense, primarily driven by an increase in the pension expense reflecting the impact of losses in asset values and a 50 basis point decline in the discount rate. The benefits expense also increased to a lesser extent due an increase in the defined contribution plan expenses reflecting the increase in staffing and an increase in medical insurance expense reflecting the increased staffing and the increase in the cost of medical care.

AgriBank evaluated all investments in an unrealized loss position and determined that thirty-one securities were in other-than-temporary loss positions at March 31, 2010. As a result of this evaluation, AgriBank has recognized \$8.9 million in impairment losses during the first quarter of 2010 compared to \$16.1 million for the same period in 2009. See additional discussion in the Investment Portfolio section of this report.

The change in provision for income taxes is related to the increase in taxable income.

LOAN PORTFOLIO

The following table presents the components of loan volume:

(in millions)	March 31, 2010	December 31, 2009
Production agriculture:		
Real estate mortgage	\$32,657.3	\$32,663.8
Short and intermediate term	15,594.6	16,425.2
Agribusiness	5,719.5	5,640.2
Rural home loans	2,012.4	1,995.9
Finance leases	607.7	605.4
Other	1,759.0	1,762.2
Nonaccrual	1,191.8	1,152.8
Total loan volume	<u>\$59,542.3</u>	<u>\$60,245.5</u>

District loan volume totaled \$59.5 billion at March 31, 2010, a \$0.7 billion decrease from December 31, 2009. Loan growth has continued to be moderate during the first quarter of 2010, reflective of significant pay downs due to retail customers selling their crops after year-end, softening loan demand due to decline in commodity prices, continued adherence to strong credit underwriting standards, and the overall downturn in the U.S. and global economies. The associations continue to focus on their core clients and are not pursuing certain aspects of capital markets to the extent they did prior to 2009.

The components of risk asset volume follow:

(in millions)	March 31, 2010	December 31, 2009
Nonaccrual	\$1,191.8	\$1,152.8
Accruing restructured	12.3	12.1
Past due 90 days or more still accruing	36.9	30.3
Total risk loans	<u>\$1,241.0</u>	<u>\$1,195.2</u>
Other property owned	50.9	55.8
Total risk assets	<u>\$1,291.9</u>	<u>\$1,251.0</u>
Risk loans as % of total loans	2.06%	1.96%
Risk assets as % of total loans plus other property owned	2.17%	2.07%
Delinquencies as a % of total loans	1.53%	1.39%

The increase in nonaccrual loans was due primarily to stress in the dairy industry. At March 31, 2010, 51.6% of nonaccrual volume was current as to principal and interest.

Based on management's analysis, all loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

Comparative allowance coverage of various loan categories follows:

Allowance as a percentage of:	March 31, 2010	December 31, 2009
Loans	0.74%	0.64%
Nonaccrual loans	36.81%	33.49%
Total risk loans	<u>35.35%</u>	<u>32.30%</u>

The District's allowance for loan losses is an estimate of losses on loans in the AgriBank and Association portfolios as of the financial statement date. AgriBank and Association management determine the appropriate allowance levels based on periodic evaluation of factors such as loan loss history, portfolio quality and current economic and environmental conditions. During the first three months of 2010 we increased our allowance for loan losses by \$52.7 million, which is net of the impact of \$20.1 million of net charge-offs. These allowance changes are reflective of further deterioration in the dairy sector of our portfolio. AgriBank and Association management consider the allowance for loan losses at March 31, 2010 to be reasonable in relation to the risk in the loan portfolios.

INVESTMENT PORTFOLIO

At March 31, 2010, investments and federal funds held for liquidity purposes by AgriBank totaled \$10.1 billion, up \$502 million from December 31, 2009.

AgriBank evaluated all investments in an unrealized loss position and determined that thirty-one securities were in other-than-temporary loss positions at March 31, 2010. AgriBank believes underlying credit issues in the housing related mortgages that support these securities may result in AgriBank not collecting all principal and interest contractually due. As a result of this evaluation, AgriBank recognized \$8.9 million in impairment losses during the first quarter of 2010 compared to \$16.1 million for the same period in 2009. No other securities, including those in the housing related asset and mortgage backed sectors, were in an other-than-temporary loss position. AgriBank has not changed the methodology for identifying securities on which to run cash flow analysis nor has AgriBank changed the methodology for determining fair value. AgriBank continuously evaluates the assumptions and adjust those assumptions as appropriate. See Note 3 for further discussion on investment impairment.

AgriBank continues to closely monitor housing related mortgage-backed and asset-backed securities. At March 31, 2010, investment securities included non-agency mortgage-backed securities with a fair value of \$349.7 million and housing related asset-backed securities (subprime, insurance wrapped and second liens) with a fair value of \$275.8 million. The fair value of the non-agency mortgage backed assets reflected a \$112.9 million unrealized loss, and the fair value of the housing related asset-backed securities reflected an unrealized loss of \$76.3 million. At March 31, 2009, non-agency mortgage-backed securities had a fair value of \$478.0 million and housing related asset-backed securities had a fair value of \$390.4 million. The fair value of the non-agency mortgage backed assets reflected a \$228.5 million unrealized loss, and the fair value of the housing related asset-backed securities reflected a net unrealized loss of \$135.9 million at March 31, 2009.

At March 31, 2010, AgriBank had securities that, because their credit ratings were downgraded below AAA, were no longer eligible under FCA regulations. The fair value of all ineligible investments totaled \$430.5 million including \$135.4 million on which AgriBank has taken impairment charges. Of the securities ineligible under the FCA regulations, securities totaling \$363.1 million have been approved by the FCA to hold beyond six months and be included in AgriBank's net collateral ratio. Securities totaling \$67.4 million have not yet received FCA approval. On March 18, 2010, AgriBank submitted a plan for approval to FCA for the remaining ineligible investments. AgriBank believes it will receive approval from FCA to continue holding these securities and counting the fair value as collateral in the net collateral ratio.

In addition, AgriBank held split-rated mortgage-backed securities with a fair value of \$94.0 million that were downgraded below AAA by at least one rating agency, including \$3.1 million on which AgriBank has taken impairment. All of these securities were housing related securities. AgriBank also held \$46.9 million of non-agency mortgage-backed securities and home equity asset-backed securities on credit watch. If any security doesn't retain an AAA rating by at least one rating agency, the security would become ineligible.

Mission-related and other investments held by Associations consisted of \$1.4 billion of government guaranteed instruments, \$440.5 million of securities issued by the Federal Agricultural Mortgage Corporation, \$30.7 million of investment notes in a trust of equipment loans, \$31.4 million of investment securities made up of Agricultural Rural Community (ARC) bonds and a \$0.9 million equity investment.

AGRICULTURAL CONDITIONS

Net farm income levels in 2009 declined significantly from the record net farm income levels of 2008 reflecting declines in both crop and animal agriculture sectors. The United States Department of Agriculture ("USDA") estimates 2009 net farm income to have been \$56.4 billion, down \$30.4 billion (34.5%) from 2008. USDA currently forecasts net farm income for 2010 to be slightly higher than 2009 at \$63.0 billion, with all of the 2010 recovery in profitability to come from increased meat and dairy margins, with continuing reductions in net crop income expected through 2010.

FUNDING, LIQUIDITY AND MEMBERS' EQUITY

AgriBank is responsible for meeting the District's funding, liquidity and asset/liability management needs. Access to funding remains the primary source of liquidity for AgriBank. AgriBank also maintains liquidity through its investment portfolio. AgriBank's liquidity policy requires it to maintain a minimum of 90 days of liquidity on a continuous basis, assuming no access to the debt capital markets. As of March 31, 2010, AgriBank had sufficient liquidity to fund all debt maturing within 165 days. During the fourth quarter of 2009, AgriBank began transitioning the composition of the liquidity investment portfolio to comply with voluntary guidelines it agreed upon with the other System Banks to improve the quality of liquidity portfolios. The most significant change is that each bank agrees to maintain at least 15 days of liquidity coverage in a combination of U.S. Treasury securities maturing within 3 years, cash held in Federal Reserve Banks or debt to be settled. AgriBank's analysis indicates that \$3 billion of qualifying U.S. Treasury securities will be held for this purpose. As of March 31, 2010, AgriBank held qualifying instruments totaling \$3.6 billion representing 34 days of liquidity coverage.

In March 2010, a District Association issued \$100 million of unsecured subordinated notes due in 15 years with a fixed rate of 9.0% annum, payable semi-annually. These notes are included in certain regulatory capital ratios subject to limitations.

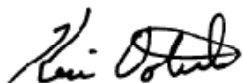
In July 2009, AgriBank issued \$500 million of 9.125% unsecured subordinated notes due 2019. The effect of the transaction increased certain regulatory capital ratios pursuant to the Farm Credit Administration regulations. These notes are unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders.

Total members' equity at March 31, 2010 was \$10.7 billion, compared to \$10.3 billion at December 31, 2009. Members' equity was positively impacted during the first three months of 2010 by net income, changes in other comprehensive income, increased stock and participation certificates and a cumulative effect of adoption of new accounting guidance. These increases were partially offset by earnings reserved for patronage distributions.

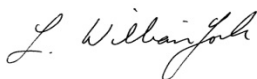
At March 31, 2010, AgriBank and each Association exceeded the regulatory minimum capital ratios, which are further discussed in Note 5 to the financial statements.

CERTIFICATION

The undersigned have reviewed the March 31, 2010 quarterly report of AgriBank, FCB and Affiliated Associations has been prepared under the oversight of the audit committee 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.



Keri Votruba
Chairman of the Board
AgriBank, FCB
May 7, 2010



L. William York
Chief Executive Officer
AgriBank, FCB
May 7, 2010



Brian J. O'Keane
Senior Vice President and Chief Financial Officer
AgriBank, FCB
May 7, 2010

COMBINED STATEMENT OF CONDITION

AgriBank, FCB and Affiliated Associations

(Dollars in thousands)

(Unaudited)

	March 31, 2010	December 31, 2009
Assets		
Loans	\$59,542,340	\$60,245,483
Allowance for loan losses	438,709	386,002
Net loans	59,103,631	59,859,481
Investment securities - AgriBank, FCB	9,762,673	8,866,278
Mission-related and other investments	1,929,976	1,877,871
Other earning assets	257,125	321,096
Cash	85,672	196,049
Federal funds	314,892	708,805
Accrued interest receivable	724,289	818,979
Premises and equipment, net	273,630	271,940
Assets held for lease, net	403,661	415,967
Derivative assets	270,351	242,900
Deferred tax assets, net	9,357	4,729
Other property owned	50,853	55,821
Other assets	202,738	184,821
Total assets	\$73,388,848	\$73,824,737
Liabilities		
Bonds and notes	\$60,986,951	\$61,690,372
Subordinated notes	600,000	500,000
Accrued interest payable	344,807	326,335
Derivative liabilities	9,280	9,546
Deferred tax liabilities, net	81,506	87,813
Accounts payable	58,793	196,041
Patronage payable	11,344	93,838
Postretirement liability	268,762	268,762
Collateral pledged by counterparties	192,090	170,197
Other liabilities	123,598	138,682
Total liabilities	62,677,131	63,481,586
Contingent liabilities		
Members' equity		
Protected capital stock and participation certificates	3,158	3,391
Capital stock and participation certificates	241,640	240,049
Allocated surplus	239,310	229,864
Unallocated surplus	10,666,462	10,350,806
Accumulated other comprehensive loss	(438,853)	(480,959)
Total members' equity	10,711,717	10,343,151
Total liabilities and members' equity	\$73,388,848	\$73,824,737

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

COMBINED STATEMENT OF INCOME

AgriBank, FCB and Affiliated Associations

(Dollars in thousands)

(Unaudited)

	Three months	
Period ended March 31,	2010	2009
Interest income		
Loans	\$748,973	\$743,492
Other earning assets	3,531	4,108
Investment securities and federal funds	38,472	55,139
Total interest income	790,976	802,739
Interest expense	296,697	383,203
Net interest income	494,279	419,536
Provision for credit losses	76,284	98,517
Net interest income after provision for credit losses	417,995	321,019
Non-interest income		
Financially related services	20,523	22,201
Loan prepayment fee income	6,886	3,245
Allocated insurance reserve account distribution	71,186	--
Miscellaneous income and other gains, net	30,958	24,215
Total non-interest income	129,553	49,661
Non-interest expense		
Salaries and employee benefits	112,279	103,919
Other operating	70,192	83,972
Impairment losses recognized in earnings:		
Total other-than-temporary impairment losses	12,360	16,066
Portion of loss recognized in other comprehensive income	(3,508)	--
Net impairment losses recognized in earnings	8,852	16,066
Total non-interest expense	191,323	203,957
Income before income taxes	356,225	166,723
Provision for income taxes	20,974	3,413
Net income	\$335,251	\$163,310

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

COMBINED STATEMENT OF CHANGES IN MEMBERS' EQUITY

AgriBank, FCB and Affiliated Associations

(Dollars in thousands)

(Unaudited)

	Comprehensive Income	Protected Capital	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive Income (Loss)				Total
						Non-other-than- temporarily-impaired Investments	Other-than-temporarily- Impaired Investments	Derivatives	Employee Benefits	
Balance at December 31, 2008		\$4,124	\$224,168	\$204,300	\$9,541,610	\$(354,731)	\$ --	\$(40,523)	\$(310,220)	\$9,268,728
Comprehensive income										
Net income	\$163,310				163,310					163,310
Other comprehensive loss, net of tax:										
Change in net unrealized losses on investment securities, net of reclassification adjustment of \$16,066	7,010					7,010				7,010
Change in net unrealized losses on cash flow hedges, net of reclassification adjustment of \$(297)	18,664							18,664		18,664
Other comprehensive loss, net of tax	25,674									
Total comprehensive income	\$188,984									
Patronage reserve					(11,849)					(11,849)
Surplus allocated under patronage programs				5,717	(5,717)					--
Distribution of allocated surplus				7						7
Capital stock/participation certificates issued			6,184							6,184
Capital stock/participation certificates retired		(216)	(5,482)							(5,698)
Balance at March 31, 2009		\$3,908	\$224,870	\$210,024	\$9,687,354	\$(347,721)	\$ --	\$(21,859)	\$(310,220)	\$9,446,356
Balance at December 31, 2009		\$3,391	\$240,049	\$229,864	\$10,350,806	\$(119,870)	\$(70,462)	\$30,800	\$(321,427)	\$10,343,151
Comprehensive income										
Net income	\$335,251				335,251					335,251
Other comprehensive income, net of tax:										
Change in unrealized losses on investment securities with other-than-temporary impairment recognition, net of reclassification adjustment of \$(7,898)	7,235						7,235			7,235
Change in unrealized losses on investment securities not other-than-temporarily impaired, net of reclassification adjustment of \$954	39,234					39,234				39,234
Change in net unrealized gains on cash flow hedges, net of reclassification adjustment of \$1,988	(13,695)							(13,695)		(13,695)
Change in net unrealized losses on pension and postretirement liabilities	9,332								9,332	9,332
Total comprehensive income	\$377,357									
Patronage reserve					(11,184)					(11,184)
Surplus allocated under patronage programs				9,722	(9,722)					--
Distribution of allocated surplus				(276)						(276)
Cumulative effect of adoption of new accounting guidance					1,311					1,311
Capital stock/participation certificates issued			6,662							6,662
Capital stock/participation certificates retired		(233)	(5,071)							(5,304)
Balance at March 31, 2010		\$3,158	\$241,640	\$239,310	\$10,666,462	\$(80,636)	\$(63,227)	\$17,105	\$(312,095)	\$10,711,717

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

COMBINED STATEMENT OF CASH FLOWS

AgriBank, FCB and Affiliated Associations

(Dollars in thousands)

(Unaudited)

Three months ended March 31	2010	2009
Cash flows from operating activities		
Net income	\$335,251	\$163,310
Adjustments to reconcile net income to cash flow from operating activities:		
Depreciation on premises and equipment	8,092	7,584
Depreciation on assets held for lease	16,490	15,061
Provision for credit losses	76,284	98,517
Decrease in accrued interest receivable	95,477	120,878
(Increase) decrease in other assets	(18,494)	3,408
Increase (decrease) in accrued interest payable	18,453	(42,572)
Decrease in other liabilities	(152,966)	(185,400)
Loss on derivative activities	1,017	2,314
Impairment of investments	8,852	16,066
Loss on sale of premises and equipment	35	283
Loss on sale of other property owned	5,176	116
Gain on bonds held at fair value under fair value option	(249)	(1,356)
Gain on disposal of assets held for lease	(348)	(111)
Insurance refund related to FAC stock	(5,141)	--
Total adjustments	52,678	34,788
Net cash provided by operating activities	387,929	198,098
Cash flows from investing activities		
Decrease in loans, net	706,988	67,814
Cash added from consolidation of variable interest entity	3,506	--
Decrease in other earning assets	63,971	57,394
Proceeds from sale of other property owned	12,072	2,882
(Increase) decrease in investment securities, net	(912,516)	419,875
Purchases of assets held for lease, net	(3,836)	(12,031)
Purchases of premises and equipment, net	(9,817)	(9,180)
Proceeds from insurance refund related to FAC stock	1,005	--
Net cash (used in) provided by investing activities	(138,627)	526,754
Cash flows from financing activities		
Consolidated bonds and notes retired, net	(782,889)	(565,003)
Issuance of subordinated notes	100,000	--
Cash patronage paid	(93,954)	(106,834)
Increase in cash collateral pledged by counterparties, net	21,893	24,320
Capital stock/participation certificates issued, net	1,358	486
Net cash used in financing activities	(753,592)	(647,031)
Net (decrease) increase in cash and federal funds	(504,290)	77,821
Cash and federal funds at beginning of year	904,854	826,327
Cash and federal funds at end of period	\$400,564	\$904,148
Supplemental schedule of non-cash activities		
Increase in derivative assets	(27,451)	\$(9,096)
(Decrease) increase in derivative liabilities	(266)	6,449
Increase (decrease) in bonds and notes from derivative activity	42,285	(13,436)
(Decrease) increase in members' equity from cash flow derivatives	(13,695)	18,664
Increase in members' equity from investments	46,469	7,010
Increase in members' equity from employee benefits	9,332	--
Loans transferred to other property owned	12,280	4,339
Patronage distributions payable to members	11,344	11,854
Cumulative effect of the adoption of accounting principle	1,311	--
Supplemental information		
Interest paid	\$278,225	\$425,775
Taxes paid (refunded)	1,905	(1,995)

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

NOTES TO COMBINED FINANCIAL STATEMENTS

AgriBank, FCB and Affiliated Associations

NOTE 1

ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

AgriBank, FCB and Affiliated Associations comprise one of the Districts of the Farm Credit System, a nationwide system of cooperatively owned banks and associations, established by Congress and subject to the provisions of the Farm Credit Act of 1971, as amended. At March 31, 2010, the District had 17 Agricultural Credit Association parent associations, each of which has wholly owned Federal Land Credit Association and Production Credit Association subsidiaries and AgriBank, FCB. AgriBank, FCB serves as the intermediary between the financial markets and the retail lending activities of the District Associations.

A description of the organization and operation of the District, significant accounting policies followed, combined financial condition, and results of operations as of and for the year ended December 31, 2009 are contained in the 2009 annual report. These unaudited first quarter 2010 combined financial statements should be read in conjunction with the annual report.

The accompanying combined financial statements include the accounts of AgriBank combined with its 17 affiliated Associations. All significant transactions and balances between AgriBank and the Associations have been eliminated in combination. The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry.

Recent Accounting Developments

Effective January 1, 2010, we adopted the Financial Accounting Standards Board (FASB) amended guidance on "Accounting for Transfers of Financial Assets," which amended previous guidance by providing clarification of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The guidance also requires additional disclosure about transfers of financial assets and a transferor's continuing involvement with transferred assets. This guidance must be applied to transfers occurring on or after the effective date of January 1, 2010. Adoption of this guidance did not have a material impact on our financial statements.

Effective January 1, 2010, we adopted the FASB amended guidance on consolidation of variable-interest entities (VIE). These amendments require an assessment to determine the primary beneficiary of a VIE based on whether the entity:

- has the power to direct matters that most significantly impact the activities of the VIE; and
- has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE.

Additionally, the amendments require an ongoing reconsideration of the primary beneficiary and provide a framework for the events that trigger a reassessment of whether an entity is a VIE. As a result, a securitization transaction held by a District Association was consolidated into our financial statements effective January 1, 2010 and will no longer be an off-balance sheet transaction. The effect of the new guidance was an increase in loans and related assets totaling approximately \$39 million and a related increase in notes payable and related liabilities of approximately \$38 million with a \$1 million members' equity impact of the cumulative effect of adoption. For purposes of this disclosure, the assets and liabilities of this transaction have been measured at their unpaid principal balances and the District Association did not use the fair value measurement. In April 2010, the District Association entered into an agreement to terminate the securitization transaction. This termination did not have a material impact on our financial statements.

Effective January 1, 2010, we adopted FASB amended guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance provides for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on our financial condition and results of operations but resulted in additional disclosures.

NOTE 2

LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of changes in the combined allowance for loan losses is presented in the following table:

(in thousands)		
Three months ended March 31,	2010	2009
Balance at beginning of period	\$386,002	\$211,254
Provision for loan losses	72,680	98,517
Charge-offs	(27,565)	(43,223)
Recoveries	7,420	489
Other	172	--
Balance at end of period	\$438,709	\$267,037

The provision for loan losses above does not include a \$3.6 million provision on an adverse commitment not yet disbursed upon at a District Association. Additional other allowance of \$0.2 million is related to consolidating the securitization transaction held by a District Association. The charge-offs and provision expenses are reflective of adverse volume in the dairy, pork, poultry, timber and ethanol sectors of the portfolio. We consider the allowance for loan losses at March 31, 2010 to be reasonable in relation to the risk in our loan portfolio.

The following table presents information concerning risk loans (risk loans include nonaccrual loans, accruing restructured loans, and loans past due 90 days or more and still accruing interest):

(in thousands)		
As of:	March 31	December 31
	2010	2009
Volume with specific reserves	\$662,225	\$641,919
Volume without specific reserves	578,716	553,219
Total risk loans	\$1,240,941	\$1,195,138
Total specific reserves	\$191,791	\$166,521

(in thousands)		
For the three months ended March 31,	2010	2009
Income on accrual risk loans	\$624	\$655
Income on nonaccrual loans	7,292	5,661
Total income on risk loans	\$7,916	\$6,316
Average recorded investment	\$1,203,870	\$835,489

The increase in risk loans reflects stress in the dairy sector of the portfolio.

NOTE 3

INVESTMENT SECURITIES AND FEDERAL FUNDS

AgriBank Investment Securities and Federal Funds

A summary of the amortized cost and fair value of investment securities and federal funds held by AgriBank follows. Commercial paper and other is primarily corporate and municipal obligations, certificates of deposit and term federal funds. All securities are classified as available for sale.

As of March 31, 2010					Weighted
(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Average Yield
Mortgage-backed securities	\$3,526,270	\$32,498	\$117,497	\$3,441,271	1.6%
Commercial paper and other	3,069,656	825	308	3,070,173	0.4%
U.S. Treasury securities	2,556,818	645	576	2,556,887	1.8%
U.S. Agencies	345,088	16,639	--	361,727	4.6%
Asset-backed securities	408,704	8,474	84,563	332,615	0.5%
Federal funds	314,892	--	--	314,892	0.2%
Total	<u>\$10,221,428</u>	<u>\$59,081</u>	<u>\$202,944</u>	<u>\$10,077,565</u>	<u>1.3%</u>

As of December 31, 2009					Weighted
(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Average Yield
Mortgage-backed securities	\$3,605,892	\$25,621	\$141,033	\$3,490,480	1.7%
Commercial paper and other	3,480,818	1,960	156	3,482,622	0.4%
U.S. Treasury securities	1,161,173	--	1,905	1,159,268	2.1%
U.S. Agencies	345,831	17,819	--	363,650	4.6%
Asset-backed securities	462,896	6,580	99,218	370,258	0.6%
Federal funds	708,805	--	--	708,805	0.1%
Total	<u>\$9,765,415</u>	<u>\$51,980</u>	<u>\$242,312</u>	<u>\$9,575,083</u>	<u>1.3%</u>

A summary of the investments in an unrealized loss position presented by the length of time that the investments have been in a continuous unrealized loss position follows:

As of March 31, 2010 (in thousands)	Less than 12 months		More than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Commercial paper and other	\$1,636,970	\$308	\$ --	\$ --
U.S. Treasury securities	1,269,283	576	--	--
Mortgage-backed securities	224,953	289	1,134,686	117,208
Asset-backed securities	--	--	271,432	84,563
Total	<u>\$3,131,206</u>	<u>\$1,173</u>	<u>\$1,406,118</u>	<u>\$201,771</u>

AgriBank evaluates its investment securities for other-than-temporary impairment on a quarterly basis. Factors considered in determining whether an impairment is other-than-temporary include: 1) the length of time and the extent to which the fair value is less than cost, 2) the financial condition and near-term prospects of the issuer and, if applicable, the financial condition of any financial guarantor, 3) the estimated cash flow projections compared to contractual cash flows, and 4) our intent to sell the impaired security and whether we are more likely than not to be required to sell the security before recovery. In addition, we qualitatively consider all available information when assessing whether impairment is other-than-temporary. Based on the results of these evaluations, if it is determined that the impairment is other-than-temporary, the loss is separated into credit-related and non-credit-related components. The credit-related portion is recognized through earnings and the non-credit related portion is recognized in other comprehensive income. The credit-related components of the other-than-temporary impairment losses were determined by projecting cash flows using cash flow models which require certain market assumptions. The significant inputs into the models include assumptions with regard to interest rates, prepayment speeds, default rates, and loss severities. The assumptions are applied at the individual security and associated collateral pool level.

The unrealized losses primarily reflect concerns about the creditworthiness and liquidity of home mortgage related asset-backed and mortgage-backed securities. AgriBank determined that securities with a fair value of \$138.5 million at March 31, 2010 were in an other-than-temporary loss position

compared to securities with a fair value of \$137.8 million at December 31, 2009. As a result of its evaluations, AgriBank has recognized \$8.9 million in net impairment losses during the first three months of 2010, reflecting a gross impairment charge in 2010 of \$12.4 million, net of \$3.5 million which was recognized in other comprehensive income. AgriBank has determined no other securities were in an other-than-temporary loss position at March 31, 2010.

The following is a roll forward of the activity during the period related to cumulative credit losses for which a portion of other-than-temporary-impairment was recognized in other comprehensive income:

(in thousands)	
Balance as of January 1, 2010 - cumulative credit losses for which a portion of an other-than-temporary impairment was recognized in OCI	\$72,129
Additions for credit loss on newly impaired securities	954
Additional credit losses related to previously impaired securities	7,898
Cumulative credit impairments at March 31, 2010	<u>\$80,981</u>

A summary of the contractual maturity at fair value and weighted average yield by maturity of investment securities and federal funds follows:

As of March 31, 2010 (in thousands)	Year of Maturity				Total
	One Year or Less	One to Five Years	Five to Ten Years	More Than Ten Years	
Mortgage-backed securities	\$ --	\$2,725	\$362,833	\$3,075,713	\$3,441,271
Commercial paper and other	2,855,832	214,341	--	--	3,070,173
U.S. Treasury securities	1,389,732	1,167,155	--	--	2,556,887
U.S. Agencies	5,737	249,005	106,985	--	361,727
Asset-backed securities	--	37,329	1,103	294,183	332,615
Federal funds	314,892	--	--	--	314,892
Total	\$4,566,193	\$1,670,555	\$470,921	\$3,369,896	\$10,077,565
Weighted Average Yield	0.9%	1.8%	1.4%	1.6%	1.3%

The expected average life is 4.4 years for asset-backed securities and 2.6 years for mortgage-backed securities. Expected maturities differ from contractual maturities because borrowers may have the right to prepay obligations.

Association Investment Securities

Mission-related and other investments held by Associations consisted of \$1.4 billion of government guaranteed instruments, \$440.5 million of securities issued by the Federal Agricultural Mortgage Corporation, \$34.3 million of investment notes in a trust of equipment loans, \$31.8 million of investment securities made up of Agricultural Rural Community (ARC) bonds and a \$0.9 million equity investment.

The following table presents the book value, unrealized gains and losses, and fair value of the held to maturity investments held by Associations:

As of March 31, 2010 (in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Government guaranteed instruments	\$1,426,384	\$11,017	\$26,342	\$1,411,059	2.3%
Farmer Mac mortgage backed securities	440,547	10,601	144	451,004	4.8%
Investment notes in a trust of equipment loans	30,748	556	155	31,149	3.6%
ARC Bonds	31,432	646	293	31,785	6.1%
Total	\$1,929,111	\$22,820	\$26,934	\$1,924,997	3.0%

As of December 31, 2009					Weighted
(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Average Yield
Government guaranteed instruments	\$1,359,322	\$9,933	\$22,146	\$1,347,109	2.3%
Farmer Mac mortgage backed securities	459,431	9,037	7,365	461,103	6.0%
Investment notes in a trust of equipment loans	41,132	892	107	41,917	3.7%
ARC Bonds	15,951	141	298	15,794	6.4%
Total	\$1,875,836	\$20,003	\$29,916	\$1,865,923	3.3%

NOTE 4

SUBORDINATED NOTES

In March 2010, a District Association issued \$100 million of unsecured subordinated notes due in 15 years with a fixed rate of 9.0% per annum, payable semi-annually. The Association may redeem all or some of the notes at any time on or after a date 10 years from the closing date. These notes are unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. These notes are included in certain regulatory capital ratios subject to limitations.

In July 2009, AgriBank issued \$500 million of 9.125% unsecured subordinated notes due 2019, generating net proceeds of \$496.8 million. The effect of the transaction increased certain regulatory capital ratios. These notes are unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. Interest is payable semi-annually on January 15 and July 15 beginning on January 15, 2010. Interest is deferred if, as of the fifth business day prior to an interest payment date of the notes, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than five consecutive years or beyond the maturity date of the subordinated notes. During such a period, AgriBank may not declare or pay any dividends or patronage refunds, among certain other restrictions, until interest payments are resumed and all deferred interest has been paid. The subordinated notes are not Systemwide debt and are not obligations of any of the other Banks of the Farm Credit System. Payments on the subordinated notes are not insured by the Farm Credit Insurance Fund.

The inclusion of subordinated notes in regulatory capital ratios is subject to certain limitations. The amount of subordinated notes eligible to be counted as permanent capital and total surplus may not exceed 50% of core surplus, and is reduced by 20% of the original amount at the beginning of each of the last five years of the term of the notes. Additionally, the amount of subordinated notes that may be counted in total surplus must not exceed the lower of 40% of permanent capital or 100% of core surplus. Subordinated notes that are not included in permanent capital and total surplus due to these limitations are required to be included as liabilities for the purpose of calculating AgriBank's net collateral ratio.

The subordinated notes are not Systemwide debt and are not obligations of any of the other Banks of the Farm Credit System. Payments on the subordinated notes are not insured by the Farm Credit Insurance Fund.

NOTE 5

CAPITAL

Farm Credit Administration's capital adequacy regulations require AgriBank and the Associations to maintain permanent capital of at least 7.0% of risk-adjusted assets. In addition, each System institution is required to maintain a total surplus to risk-adjusted assets ratio of at least 7.0% and a core surplus to risk-adjusted assets ratio of at least 3.5%. At March 31, 2010, AgriBank exceeded these requirements with a 19.0% permanent capital ratio, 14.9% total surplus ratio, and 8.6% core surplus ratio. All District Associations exceeded the regulatory minimums at March 31, 2010.

Farm Credit Administration regulations also require AgriBank to maintain a net collateral ratio of at least 103.0%. However, AgriBank is required by the regulator to maintain a higher minimum of 104.0% during the period in which AgriBank has subordinated notes outstanding. At March 31, 2010, AgriBank's net collateral ratio was 105.8%.

NOTE 6

EMPLOYEE BENEFIT PLANS

Net periodic benefit costs included the following components:

(in thousands)	2010		2009	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Three months ended March 31, 2010				
Components of net periodic benefit cost				
Service cost	\$5,346	\$154	\$4,838	\$149
Interest cost	10,705	406	10,127	425
Expected return on plan assets	(11,499)	--	(11,553)	--
Amortization of prior service cost	(259)	(156)	(258)	(156)
Amortization of loss or (gain)	5,387	(34)	3,356	(49)
Net periodic benefit cost	<u>\$9,680</u>	<u>\$370</u>	<u>\$6,510</u>	<u>\$369</u>

The District previously disclosed in our financial statements for the year ended December 31, 2009, that the District expected to contribute \$23.0 million for pension benefits and \$1.7 million for other postretirement benefits in 2010. As of March 31, 2010, District employers have not made a pension contribution. District employers presently anticipate contributing \$25.4 million to fund pension benefits in 2010. As of March 31, 2010, District employers have contributed \$378 thousand for other postretirement benefits. District employers anticipate contributing an additional \$1.1 million for other postretirement benefits in 2010 for a total of \$1.5 million.

NOTE 7

COMMITMENTS AND CONTINGENCIES

District entities may, from time to time, be named as defendants in certain lawsuits or legal actions in the normal course of business. At the date of these financial statements, management was not aware of any such actions that would have a material impact on the entities' financial condition. However, AgriBank and Association management cannot ensure that such actions or other contingencies will not arise in the future.

While AgriBank is primarily liable for our portion of Systemwide bonds and notes, AgriBank is jointly and severally liable for the Systemwide bonds and notes of the other Farm Credit System Banks. The total bonds and notes of the Farm Credit System at March 31, 2010 were \$174.6 billion.

NOTE 8

FAIR VALUE MEASUREMENTS

Valuation Techniques

Authoritative guidance on "Fair Value Measurements and Disclosures" defines fair value, establishes a framework for measuring fair value and requires disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities primarily consist of investments available-for-sale, federal funds, derivative assets and liabilities, impaired loans, other property owned, and collateral liabilities. 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 our financial instruments measured on a recurring basis within the fair value hierarchy are as follows:

Level 1

Level 1 inputs in the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Level 1 assets and liabilities could include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Our Level 1 assets at March 31, 2010 consist of U.S. Treasury Securities held by AgriBank.

Our Level 1 liabilities also include collateral liabilities. The majority of derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of cash collateral in the event certain dollar thresholds of credit exposure are reached. The market value of collateral liabilities is its face value that approximates fair value.

Level 2

Level 2 inputs in 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. Level 2 assets and liabilities could include certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities and derivative contracts.

The fair value of substantially all of AgriBank's investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate repayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities including LIBOR, Treasury and other Index benchmarks. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

The fair value of AgriBank's derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models. These models incorporate LIBOR swap curves, market volatilities, and other inputs which are observable directly or indirectly in the marketplace. AgriBank compares internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

Our Level 2 assets and liabilities at March 31, 2010 include derivative assets and liabilities, commercial paper, mortgage-backed securities and U.S. Agency securities, all of which have unadjusted values from third-party or internal pricing models. Level 2 assets also include federal funds. The market value of federal funds is generally their face value, plus accrued interest, as these instruments are highly-liquid, readily convertible to cash, and short-term in nature.

Level 3

Level 3 inputs in the valuation methodology are unobservable and supported by little or no market activity. Level 3 assets and liabilities could include investments and derivative contracts whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, and other instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets and liabilities also could include investments and derivative contracts 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, 2010 include AgriBank's mortgage-related asset-backed investment portfolio and non-agency mortgage-backed securities. Based on the relatively illiquid marketplace for these investments and the lack of marketplace information available as inputs and assumptions to the valuation process, AgriBank classified the mortgage-related asset-backed investment portfolio and non-agency mortgage-backed securities as Level 3 assets. The fair value measurement of these assets involved management's judgment and was based on multiple factors including information obtained from third-party valuation services using both Level 2 and Level 3 inputs. These inputs include volatilities, market spreads, prepayment speeds and dealer quotes.

Level 3 liabilities at March 31, 2010 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.

The classification of our financial instruments, measured at fair value on a non-recurring basis, is as follows:

Level 3 and level 2 assets at March 31, 2010 include certain loans evaluated for impairment under FASB guidance which have fair values based upon the underlying collateral as the loans were collateral-dependent. Since the value of the collateral, less estimated costs to sell, was less than the principle balance of the loan, specific reserves were established for these loans. The fair value measurement would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under Level 3 of the hierarchy if the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters.

Other property owned is classified as a Level 3 asset at March 31, 2010. The fair value for other property owned is based upon the collateral fair value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

As of March 31, 2010 (in thousands)	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Federal funds sold and securities purchased				
under resale agreements	\$ --	\$314,892	\$ --	\$314,892
Investments available for sale				
Mortgage-backed securities	--	3,091,587	349,684	3,441,271
Commercial paper and other	--	3,070,173	--	3,070,173
U.S. Treasury securities	2,556,887	--	--	2,556,887
U.S Agencies	--	361,727	--	361,727
Asset-backed securities	--	--	332,615	332,615
Total investments available for sale	2,556,887	6,523,487	682,299	9,762,673
Derivative assets	--	270,351	-	270,351
Total assets	\$2,556,887	\$7,108,730	\$682,299	\$10,347,916
Liabilities:				
Cash collateral pledged by counterparties	\$192,090	\$ --	\$ --	\$192,090
Derivative liabilities	--	9,280	--	9,280
Stand by letters of credit	--	--	142	142
Total liabilities	\$192,090	\$9,280	\$142	\$201,512

As of December 31, 2009 (in thousands)	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Federal funds sold and securities purchased				
under resale agreements	\$ --	\$708,805	\$ --	\$708,805
Investments available for sale				
Mortgage-backed securities	--	3,108,445	382,035	3,490,480
Commercial paper and other	--	3,482,622	-	3,482,622
U.S. Treasury securities	1,159,268	--	--	1,159,268
U.S Agencies	--	363,650	--	363,650
Asset-backed securities	--	--	371,891	371,891
Total investments available for sale	1,159,268	6,954,717	753,926	8,867,911
Derivative assets	--	242,575	325	242,900
Total assets	\$1,159,268	\$7,906,097	\$754,251	\$9,819,616
Liabilities:				
Systemwide debt securities	\$ --	\$100,249	\$ --	\$100,249
Cash collateral pledged by counterparties	170,197	--	--	170,197
Derivative liabilities	--	9,546	--	9,546
Stand by letters of credit	--	--	143	143
Total liabilities	\$170,197	\$109,795	\$143	\$280,135

The table below represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Level 3 Instruments Only				
(in thousands)	Total Fair Value Measurement			
	Investments Available For Sale			
	Asset-backed Securities	Mortgage-backed Securities	Derivative Assets	Standby Letters of Credit
Balance at December 31, 2009	\$371,891	\$382,035	\$325	\$143
Total gains or losses realized/unrealized:				
Included in earnings	--	(8,852)	(325)	(1)
Included in other comprehensive income	16,549	16,000	--	--
Purchases, issuances and settlements	(55,825)	(39,499)	--	--
Transfers in and/or out of Level 3	--	--	--	--
Balance at March 31, 2010	\$332,615	\$349,684	\$ --	\$142

Level 3 Instruments Only				
(in thousands)	Total Fair Value Measurement			
	Investments Available For Sale			
	Asset-backed Securities	Mortgage-backed Securities	Derivative Assets	Standby Letters of Credit
Balance at December 31, 2008	\$625,579	\$544,613	\$1,200	\$145
Total gains or losses realized/unrealized:				
Included in earnings	(16,066)	--	(299)	(6)
Included in other comprehensive income	(11,178)	(9,917)	--	--
Purchases, issuances and settlements	(109,855)	(56,732)	--	--
Transfers in and/or out of Level 3	--	--	--	--
Balance at March 31, 2009	\$488,480	\$477,964	\$901	\$139

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

As of March 31, 2010 (in thousands)	Fair Value Measurement Using			Total Fair Value	Total Losses
	Level 1	Level 2	Level 3		
Assets:					
Loans	\$ --	\$209,388	\$296,446	\$505,834	\$25,270
Other property owned	--	--	52,887	52,887	6,095
As of December 31, 2009 (in thousands)	Fair Value Measurement Using			Total Fair Value	Total Losses
	Level 1	Level 2	Level 3		
Assets:					
Loans	\$ --	\$233,876	\$244,340	\$478,216	\$75,696
Other property owned	--	--	58,054	58,054	3,913

NOTE 9

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Use of Derivatives

AgriBank maintains an overall interest rate risk management strategy that incorporates the use of derivative products to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. AgriBank's goals are to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. As a result of interest rate fluctuations, hedged fixed-rate liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by AgriBank's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged floating-rate liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by AgriBank's gains and losses on the derivative instruments that are linked to these hedged assets and liabilities. AgriBank considers the use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

AgriBank enters into derivative transactions, particularly interest rate swaps, to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. AgriBank may also enter into derivatives with District Associations as a service to enable them to transfer, modify or reduce their exposure to retail interest rate risk. AgriBank substantially offsets this risk by concurrently entering into offsetting agreements with non-System institutional counterparties. Interest rate swaps allow AgriBank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to AgriBank if floating rate borrowings were made directly. Under interest rate swap arrangements, AgriBank agree with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index. AgriBank may purchase interest rate options, such as caps, in order to offset the impact of rising interest rates on AgriBank's floating-rate debt, and floors, in order to offset the impact of falling interest rates on related floating-rate assets.

The primary types of derivative instruments used and the amount of activity during the period (in notional amount) is summarized in the following table:

(in millions)	Pay-Fixed and Amortizing		Floating-for-Floating and Amortizing	Interest Rate Caps	Other Derivatives	Total
	Receive-Fixed Swaps	Pay-Fixed Swaps	Floating-for-Floating			
Balance at January 1, 2010	\$7,415	\$675	\$1,350	\$3	\$481	\$9,924
Additions	250	--	--	--	71	321
Maturities/amortization	100	17	50	--	72	239
Terminations	--	--	--	--	23	23
Balance at March 31, 2010	\$7,565	\$658	\$1,300	\$3	\$457	\$9,983

(in millions)	Pay-Fixed and Amortizing		Floating-for-Floating and Amortizing	Interest Rate Caps	Other Derivatives	Total
	Receive-Fixed Swaps	Pay-Fixed Swaps	Floating-for-Floating			
Balance at January 1, 2009	\$9,130	\$595	\$1,650	\$18	\$281	\$11,674
Additions	150	--	250	--	49	449
Maturities/amortization	890	17	--	5	61	973
Balance at March 31, 2009	\$8,390	\$578	\$1,900	\$13	\$269	\$11,150

By using derivative products, AgriBank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, AgriBank's credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes AgriBank, thus creating credit risk for AgriBank. When the fair value of the derivative contract is negative, AgriBank owes the counterparty and, therefore, AgriBank does not have credit risk to that counterparty.

To minimize the risk of credit losses, AgriBank only deals with non-customer counterparties that have an investment grade or better credit rating from a rating agency and also monitors the credit standing and levels of exposure to individual counterparties. AgriBank does not anticipate nonperformance by any of these counterparties. AgriBank typically enters into master agreements that contain netting provisions. These provisions allow AgriBank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. Substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to the other are reached. These thresholds vary depending on the counterparty's current credit rating. At March 31, 2010, AgriBank's exposure to counterparties, net of collateral, was \$114.9 million. At March 31, 2010, AgriBank held cash collateral of \$192.1 million and \$21.9 million in pledged securities from counterparties.

AgriBank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of AgriBank's asset/liability and treasury functions. AgriBank's ALCO is responsible for approving hedging strategies that are developed within parameters established by the Bank's board of directors through AgriBank's analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into AgriBank's overall interest rate risk-management strategies.

Accounting for Derivatives

Fair-Value Hedges: For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. We include the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. Gains and losses on the

derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges: For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Derivatives not Designated as Hedges: For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings in "Miscellaneous income and other gains, net" in the Statement of Income.

Financial Statement Impact of Derivatives

The following table presents the gross fair value of derivative assets and derivative liabilities. The fair value of our derivative contracts are presented as "Derivative assets" and "Derivative liabilities" in the Statement of Condition, and are presented net on the Statement of Condition for counterparties with master netting agreements.

(in thousands)	March 31, 2010		December 31, 2009	
	Fair Value Assets:	Fair Value Liabilities:	Fair Value Assets:	Fair Value Liabilities:
As of				
Derivatives designated as hedging instruments:				
Receive-fixed swaps	\$252,065	\$2,037	\$223,315	\$13,759
Pay-fixed and amortizing pay-fixed swaps	45,195	26,265	48,323	21,984
Floating-for-floating and amortizing floating-for-floating swaps	--	5,440	111	1,277
Total derivatives designated as hedging instruments	<u>297,260</u>	<u>33,742</u>	<u>271,749</u>	<u>37,020</u>
Derivatives not designated as hedging instruments:				
Receive-fixed swaps	--	788	251	878
Interest rate caps	1	--	5	--
Foreign exchange contracts	3	159	--	302
Other derivative products	93	--	596	--
Total derivatives not designated as hedging instruments	<u>97</u>	<u>947</u>	<u>852</u>	<u>1,180</u>
Credit valuation adjustment	(1,597)	--	(1,047)	--
Total derivatives	<u>\$295,760</u>	<u>\$34,689</u>	<u>\$271,554</u>	<u>\$38,200</u>

The fair value of derivatives includes credit valuation adjustments (CVA) which totaled \$1.6 million at March 31, 2010 and \$1.0 million at December 31, 2009. The CVA reflects credit risk of each derivative counterparty to which we have exposure, net of any collateral posted by the counterparty, and an adjustment for our credit worthiness where the counterparty has exposure to us. The CVA is included in "Miscellaneous income and other gains, net" on the Statement of Income.

The following table presents the effect of derivative instruments designated as hedging instruments on the Statement of Income. The gains or losses on the derivative instruments in the following table are recognized in "Interest expense" on the Statement of Income.

(in thousands)	2010	2009
For the period ended March 31,	Amount of Gain or	Amount of Gain or
Derivatives - Fair Value Hedging Relationships	(Loss) Recognized	(Loss) Recognized
Receive-fixed swaps	\$(1,812)	\$(2,010)
Pay-fixed and amortizing pay-fixed swaps	--	598
Floating-for-floating and amortizing floating-for-floating swaps	--	103
Other derivative products	--	(365)
Total	<u>\$(1,812)</u>	<u>\$(1,674)</u>

The following table presents the amount of OCI recognized on derivatives. The gain or (loss) on derivatives designated as hedges reclassified from accumulated other comprehensive income into income is included in "interest expense" on the Statement of Income.

For the period ended March 31, 2010 (in thousands):

Derivatives - Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)	Amount of Gain or (Loss) reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) recognized in Income on Derivatives (Ineffective Portion) and amount excluded from effectiveness testing
Pay-fixed and amortizing pay-fixed swaps	\$(7,514)	\$346	\$25
Floating-for-floating and amortizing floating-for-floating swaps	(4,218)	2,007	--
Other derivative products	--	(365)	--
Total	\$(11,732)	\$1,988	\$25

For the period ended March 31, 2009 (in thousands):

Derivatives - Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)	Amount of Gain or (Loss) reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) recognized in Income on Derivatives (Ineffective Portion) and amount excluded from effectiveness testing
Pay-fixed and amortizing pay-fixed swaps	\$(19,799)	\$(1,643)	\$(45)
Floating-for-floating and amortizing floating-for-floating swaps	2,162	978	6
Interest rate caps	--	4	--
Other derivative products	(730)	364	--
Total	\$(18,367)	\$(297)	\$(39)

The following table presents the effect of derivative instruments not designated as hedging instruments on the Statement of Income. The gain or (loss) on derivatives not designated as hedges is included in "Miscellaneous income and other gains, net" on the Statement of Income.

(in thousands)	2010	2009
For the period ended March 31, Derivatives Not Designated as Hedging Instruments	Amount of Loss Recognized	Amount of (Loss) Gain Recognized
Receive-fixed swaps	\$(161)	\$(1,542)
Floating-for-floating and amortizing floating-for-floating swaps	--	40
Interest rate caps	(4)	(10)
Other derivative products	(504)	(1,092)
Total	\$(669)	\$(2,604)

NOTE 10

SUBSEQUENT EVENTS

We have evaluated subsequent events through May 7, 2010, which is the date the financial statements were available to be issued.

NOTE 11

AGRIBANK ONLY DATA

Statement of Condition (in thousands)	March 31, 2010	December 31, 2009
Loans, net	\$54,465,993	\$55,636,376
Other assets	10,989,596	10,506,955
Total assets	<u>\$65,455,589</u>	<u>\$66,143,331</u>
Liabilities	\$62,105,671	\$62,876,696
Members' equity	3,349,918	3,266,635
Total liabilities and members' equity	<u>\$65,455,589</u>	<u>\$66,143,331</u>
Statement of Income (in thousands)	Three months ended March 31	
	2010	2009
Interest income	\$426,344	\$487,414
Interest expense	295,800	383,162
Net interest income	130,544	104,252
Provision for loan losses	(5,000)	(5,634)
Other, net	10,627	(12,937)
Net income	<u>\$136,171</u>	<u>\$85,681</u>
Patronage	\$63,018	\$51,608

Substantially all patronage is paid to the Associations and is eliminated in combination.



AgriBank, FCB and Affiliated Associations

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