Farm Credit

2010 ANNUAL INFORMATION STATEMENT OF THE FARM CREDIT SYSTEM

Federal Farm Credit Banks Funding Corporation
10 Exchange Place, Suite 1401 • Jersey City, New Jersey 07302 • 201-200-8000

MARCH 1, 2011

This annual information statement provides important information for investors in the debt securities jointly issued by the five Farm Credit System Banks — AgFirst Farm Credit Bank, AgriBank, FCB, CoBank, ACB, Farm Credit Bank of Texas, and U.S. AgBank, FCB (collectively, the Banks). These debt securities, which we refer to as Systemwide Debt Securities, include:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Master Notes,
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes, and
- any other debt securities that the Farm Credit System Banks may jointly issue from time to time.

This annual information statement does not constitute an offer to sell or a solicitation of an offer to buy Systemwide Debt Securities. Systemwide Debt Securities are offered by the Federal Farm Credit Banks Funding Corporation on behalf of the Banks pursuant to offering circulars for each type of debt offering. The relevant offering circulars as of this date are:

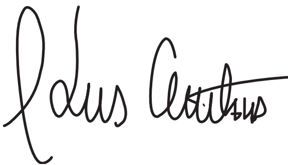
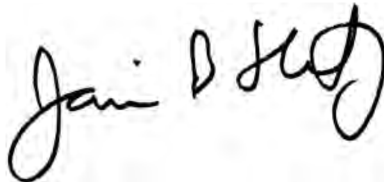
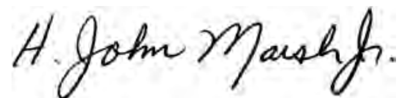
- Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes Offering Circular dated October 18, 2010, and
- Federal Farm Credit Banks Consolidated Systemwide Master Notes Offering Circular dated December 21, 1999, as amended by the supplement dated August 20, 2001.

Each of the offering circulars may be amended or supplemented from time to time and new offering circulars may be issued. Before purchasing Systemwide Debt Securities, you should carefully read the relevant offering circular, this annual information statement and other current information released by the Funding Corporation regarding the Banks and/or Systemwide Debt Securities. At this time, no Systemwide Debt Securities are being offered under the Federal Farm Credit Banks Global Debt Program Offering Circular dated October 10, 1996 or the Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes Offering Circular dated July 19, 1993, as amended by supplements dated February 26, 1997 and June 11, 1999. No securities previously offered under the Global Debt Offering Circular or the Master Notes Offering Circular are currently outstanding.

Systemwide Debt Securities are the joint and several obligations of the Banks and are not obligations of and are not guaranteed by the United States government. Systemwide Debt Securities are not required to be registered and have not been registered under the Securities Act of 1933. In addition, the Banks are not required to file and do not file periodic reports under the Securities Exchange Act of 1934. Systemwide Debt Securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of any offering material.

Certification

The undersigned certify that (1) we have reviewed this annual information statement, (2) this annual information statement has been prepared in accordance with all applicable statutory or regulatory requirements, and (3) the information contained in this annual information statement is true, accurate, and complete to the best of the signatories' knowledge and belief.

J. Less Guthrie	Jamie B. Stewart, Jr.	H. John Marsh, Jr.
Chairman of the Board	President and CEO	Managing Director — Financial Management Division

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

Farm Credit System quarterly and annual information statements and press releases relating to financial results or other developments affecting the System issued by the Federal Farm Credit Banks Funding Corporation for the current fiscal year and the two preceding fiscal years, as well as offering circulars relating to Systemwide Debt Securities, are available for inspection at, or will be furnished without charge upon request to, the Federal Farm Credit Banks Funding Corporation, 10 Exchange Place, Suite 1401, Jersey City, New Jersey 07302; telephone (201) 200-8000. These documents are also available on the Funding Corporation's website located at www.farmcredit-ffcb.com. Other information regarding the System can be found on the System's website located at www.farmcredit.com.

In addition, copies of quarterly and annual reports of each Bank and, as applicable, each Bank combined with its affiliated Associations (collectively referred to as a District) may be obtained from the individual Bank. Bank addresses and telephone numbers where copies of these documents may be obtained are listed on page S-30 of this annual information statement. These documents and further information on each Bank and/or District and links to a Bank's affiliated Associations' websites are also available on each Bank's website as follows:

- AgFirst Farm Credit Bank — www.agfirst.com
- AgriBank, FCB — www.agribank.com
- CoBank, ACB — www.cobank.com
- Farm Credit Bank of Texas — www.farmcreditbank.com
- U.S. AgBank, FCB — www.usagbank.com

Information contained on these websites is not incorporated by reference into this annual information statement and you should not consider information contained on these websites to be part of this annual information statement.

FIVE-YEAR SUMMARY OF SELECTED COMBINED FINANCIAL DATA AND KEY FINANCIAL RATIOS

The following selected combined financial data for each of the five years in the period ended December 31, 2010 has been derived from the audited combined financial statements of the Farm Credit System. The selected combined financial data and combined financial statements of the Farm Credit System combine the financial condition and operating results of each of the Banks, their affiliated Associations, the Federal Farm Credit Banks Funding Corporation, and the Farm Credit Insurance Fund, and reflect the investments in, and allocated earnings of, certain service organizations owned by the Banks and/or Associations. All significant intra-System transactions and balances have been eliminated in combination. Because System entities are financially and operationally interdependent, we believe providing the combined financial information is more meaningful to investors in Systemwide Debt Securities than financial information relating to the Banks on a stand-alone basis (i.e., without the Associations). While this annual information statement reports on the combined financial position and results of operations of the Banks, Associations, and other System entities specified above, only the Banks are jointly and severally liable for payments on Systemwide Debt Securities. As an important component of the System combined financial statements, Note 22 to the accompanying combined financial statements provides combining Bank-only financial condition and results of operations information. Copies of quarterly and annual reports of each Bank are available on its website; see page 2 for a listing of the websites.

The combined statement of condition at December 31, 2010 and 2009 and the related combined statements of income, of changes in capital, and of cash flows for each of the three years in the period ended December 31, 2010 and related notes appear elsewhere in this annual information statement.

	2010	2009	2008	2007	2006
			(in millions)		
Combined Statement of Condition Data					
Loans	$175,351	$164,830	$161,423	$142,906	$123,436
Allowance for loan losses	(1,447)	(1,359)	(936)	(781)	(734)
Net loans	173,904	163,471	160,487	142,125	122,702
Cash, Federal funds sold and investments	46,282	42,221	43,807	36,460	33,117
Accrued interest receivable	1,881	1,952	1,970	2,013	1,839
Other property owned	454	241	46	32	21
Total assets	229,973	215,457	214,353	186,451	162,864
Systemwide bonds and medium-term notes	169,579	165,692	162,260	134,783	115,862
Systemwide discount notes	19,194	11,604	16,105	19,660	17,768
Subordinated debt	1,650	1,550	1,050	500	
Other bonds	802	1,062	1,404	852	836
Mandatorily redeemable preferred stock	225	225	225	225	225
Protected borrower stock	7	8	10	11	13
Total liabilities	196,722	185,498	187,229	160,032	138,434
Capital	33,251	29,959	27,124	26,419	24,430
Combined Statement of Income Data					
Net interest income	$ 5,890	$ 5,392	$ 4,702	$ 4,060	$ 3,584
Provision for loan losses	(667)	(925)	(408)	(81)	(35)
Net noninterest expense	(1,510)	(1,422)	(1,225)	(1,135)	(1,087)
Income before income taxes	3,713	3,045	3,069	2,844	2,462
Provision for income taxes	(218)	(195)	(153)	(141)	(83)
Net income	$ 3,495	$ 2,850	$ 2,916	$ 2,703	$ 2,379

Combined Key Financial Ratios

Certain combined key financial ratios of the System are set forth below.

	2010	2009	2008	2007	2006
Return on average assets	1.60%	1.33%	1.44%	1.56%	1.59%
Return on average capital	10.90	9.92	10.63	10.44	10.03
Net interest income as a percentage of average earning assets	2.82	2.65	2.41	2.43	2.48
Operating expense as a percentage of net interest income and noninterest income	31.0	31.3	33.0	35.3	37.6
Net loan charge-offs as a percentage of average loans	0.36	0.32	0.06	0.03	0.04
Nonperforming assets as a percentage of loans and other property owned	2.18	2.29	1.52	0.46	0.52
Allowance for loan losses as a percentage of loans outstanding at year end	0.83	0.82	0.58	0.55	0.59
Capital as a percentage of total assets at year end	14.5	13.9	12.7	14.2	15.0
Risks funds (capital plus allowance for loan losses) as a percentage of loans outstanding at year end	19.8	19.0	17.4	19.0	20.4
Debt to capital at year end	5.92:1	6.19:1	6.90:1	6.06:1	5.67:1

BUSINESS

Overview of the Farm Credit System

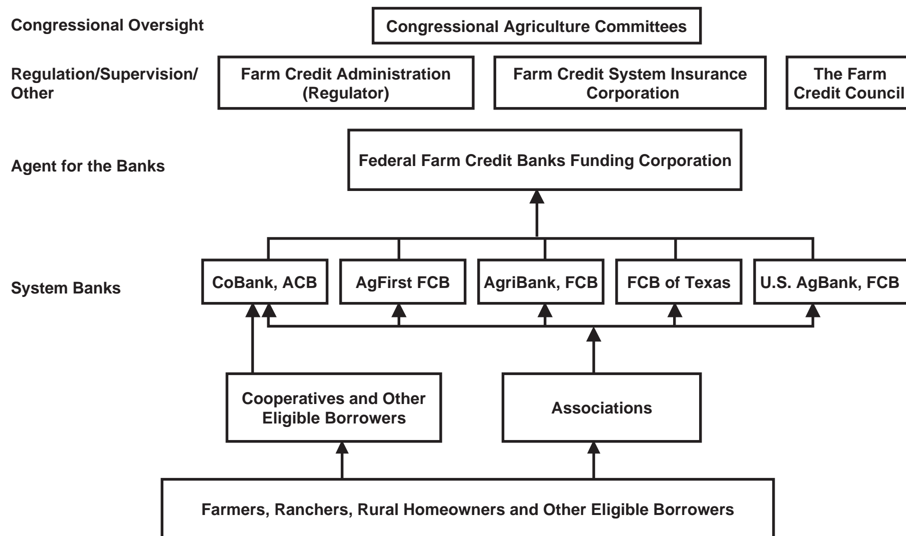
The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. Our mission is to provide sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and certain farm-related businesses. We do this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses.

Consistent with our mission of serving rural America, we also make rural residential real estate loans, finance rural communication, energy and water infrastructures and make loans to support agricultural exports and to finance other eligible entities.

Congress established the Farm Credit Administration as the System's independent federal regulator to examine and regulate System institutions, including their safety and soundness. System institutions are federal instrumentalities.

Structure/Ownership of the Farm Credit System

The following chart depicts the overall structure and ownership of the System.



The Associations are cooperatives owned by their borrowers, and the Farm Credit Banks (AgFirst, AgriBank, Texas and U.S. AgBank) are cooperatives primarily owned by their affiliated Associations. The Agricultural Credit Bank (CoBank) is a cooperative principally owned by cooperatives, other eligible borrowers and its affiliated Associations. The Banks and Associations each have their own board of directors and are not commonly owned. Each Bank and Association manages and controls its own business activities, operations and financial performance.

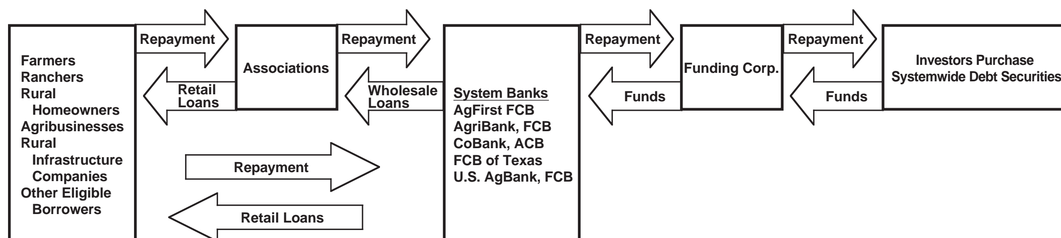
The Banks jointly own the Federal Farm Credit Banks Funding Corporation. The Funding Corporation, as agent for the Banks, issues and markets Systemwide Debt Securities in order to raise funds for the lending activities and operations of the Banks and Associations. The Funding Corporation also provides the Banks with certain consulting, accounting and financial reporting services, including the preparation of the System's quarterly and annual information statements and the System's combined financial statements contained in those information statements. As the System's financial spokesperson, the Funding Corporation is primarily responsible for financial disclosure and the release of public information concerning the financial condition and performance of the System.

Systemwide Debt Securities are the general unsecured joint and several obligations of the Banks. Systemwide Debt Securities are not obligations of and are not guaranteed by the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as a result, the capital of the Associations may not be available to support principal or interest payments on Systemwide Debt Securities.

Our Business Model

A Bank and its affiliated Associations are financially and operationally interdependent as the Bank is statutorily required to serve as an intermediary between the financial markets and the retail lending activities of its affiliated Associations. The Banks are the primary source of funds for the Associations. Associations are not legally authorized to accept deposits and may not borrow from other financial institutions without the approval of their affiliated Bank. The Banks are not legally authorized to accept deposits and they principally obtain their funds through the issuance of Systemwide Debt Securities. Other less significant sources of funding for the Banks include internally generated earnings, the issuance of common and preferred equities and the issuance of subordinated debt. As a result, the loans made by the Associations are primarily funded by the issuance of Systemwide Debt Securities by the Banks. The repayment of Systemwide Debt Securities is dependent upon the ability of borrowers to repay their loans from the Associations. In addition, CoBank makes retail loans and leases directly to cooperatives, rural infrastructure companies, and other eligible borrowers. The Banks also purchase eligible retail loan participations from Associations, other Banks and non-System lenders. Therefore, the repayment of Systemwide Debt Securities is also dependent upon the ability of these borrowers to repay their loans.

The chart below illustrates the flow of funds from investors in Systemwide Debt Securities to the System's borrowers and the ultimate repayment of the investors resulting from borrower loan repayments.



Overview of Our Business

As required by the Farm Credit Act, we specialize in providing financing and related services to eligible, creditworthy borrowers in the agricultural and rural sectors, to certain related entities, and to domestic or foreign parties in connection with international agricultural trade transactions. We make credit available in all 50 states, the Commonwealth of Puerto Rico, and, under conditions set forth in the Farm Credit Act, U.S. territories.

System institutions may also provide a variety of services to their borrowers, including credit and mortgage-life insurance, disability insurance, various types of crop insurance, estate planning, record keeping services, tax planning and preparation, cash management products and services, and consulting. In addition, some System institutions provide leasing and related services to their customers.

Government-Sponsored Enterprise Status

Our mission is to provide sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, certain farm-related businesses and rural homeowners by making loans and providing financially related services. In order to better accomplish our mission, Congress has granted the System certain attributes that result in government-sponsored enterprise status for the System. As a government-sponsored enterprise, we have traditionally been able to raise funds at competitive rates and terms, in varying economic environments. This ability to raise funds has historically allowed us to make competitively priced loans to eligible borrowers and thus accomplish our mission. (See "Business — Risk Factors" for a discussion of the uncertainty about the future of government-sponsored enterprises.)

Agricultural Industry Overview

The agricultural sector has been a key economic force in the U.S. economy and is strongly affected by domestic and world economic conditions. The System was created to provide support for this sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The receipt of government payments by the agricultural sector enhances farm income. These payments are typically made to producers of certain commodities. Profitability in our business is dependent on the health of the U.S. agricultural sector and government support is very important for producers of some commodities. Further, in view of the importance of off-farm income to the repayment ability of many agricultural producers, our business is also dependent on the health of the general economy.

System Lending Institutions

The two types of entities through which we conduct our lending business are the Banks and the Associations.

Banks

At December 31, 2010, the System had five Banks (four Farm Credit Banks and one Agricultural Credit Bank). The Banks and their affiliated Associations are referred to as Districts. The Banks' lending operations include wholesale loans to their affiliated Associations and loan participations in eligible loans purchased from Associations, other Banks and non-System lenders. In addition, CoBank, as the Agricultural Credit Bank, has additional nationwide authority to make retail loans directly to cooperatives and other eligible entities.

The Banks obtain a substantial majority of funds for their lending operations through the issuance of Systemwide Debt Securities, but also obtain some of their funds from internally generated earnings, from the issuance of common and preferred equities and from the issuance of subordinated debt.

On December 16, 2010, the boards of directors of U.S. AgBank and CoBank approved an agreement setting forth the key terms and conditions of a proposed merger transaction between them. The proposed merger transaction is subject to several conditions, including the satisfactory completion of due diligence by the parties, the execution and approval of a merger agreement by their boards of directors, and the approval of the merger transaction by their stockholders and the Farm Credit Administration.

Associations

As of January 1, 2011, the System had 84 Associations throughout the nation. There were 81 Agricultural Credit Associations with Production Credit Association subsidiaries and Federal Land Credit Association subsidiaries, and three Federal Land Credit Associations. The Federal Land Credit Associations make real estate mortgage loans, including rural residential real estate loans. Agricultural Credit Associations may, directly or through their subsidiaries, make real estate mortgage loans, production and intermediate-term loans, agribusiness loans (processing and marketing loans, and certain farm-related business loans) and rural residential real estate loans. These retail loans are made to farmers, ranchers, producers or harvesters of aquatic products, farm-related businesses and rural homeowners. Associations may also purchase eligible loan participations from other System entities and non-System lenders.

Although the Associations obtain some of the funds for their lending operations from internally generated earnings and from the issuance of equities, the substantial majority of their funding is obtained through borrowings from their affiliated Bank.

Districts

The following table lists the five Districts and provides information about the asset size and the loan portfolio size of each District as of December 31, 2010.

District	Assets	Loans
	(in millions)	
AgFirst	$33,550	$23,033
AgriBank	79,786	65,048
Texas	19,556	15,629
U.S. AgBank	30,333	24,307
CoBank	67,700	51,815

There is substantial variation among the Districts with respect to size, number and mix of Associations. The largest Associations, those over $1 billion in assets, accounted for 47.1% and 47.6% of the System's assets and 57.2% and 57.6% of the System's loans at December 31, 2010 and 2009. A summary of these Associations by asset size can be found in the Supplemental Financial Information on pages F-68 and F-69.

Products and Services

Loans by Banks

The Banks lend to the Associations in their District and, to a much lesser extent, other eligible financial institutions relating to their agricultural loan portfolios (e.g., national or state banks, trust companies, savings institutions or credit unions). They also purchase participations in loans made by the Associations, other Banks and non-System lenders to eligible borrowers or certain entities whose operations are functionally similar to those of an eligible borrower.

CoBank also may make the following types of loans:

- Agribusiness loans — primarily to finance the operations of farmer-owned cooperatives,
- Communication loans — primarily to finance rural communication companies,
- Energy loans — primarily to finance electric generation, transmission and distribution systems serving rural areas,
- Water and waste disposal loans — primarily to finance water and waste disposal systems serving rural areas, and
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.

These lending authorities are subject to certain limitations and criteria. The other Banks and the Associations may also participate in any loan originated or purchased by CoBank. CoBank may participate with other System institutions in loans that the originating System institution is authorized to make and with non-System institutions in eligible loans.

Loans by Associations

The Associations offer the following types of loans to their borrowers:

- Real estate mortgage loans — generally to purchase farm real estate, refinance existing mortgages, construct various facilities used in agricultural operations, or purchase other rural residential/lifestyle real estate for both full-time and part-time farmers. In addition, credit for other agricultural purposes and family needs is available to full-time and part-time farmers. Real estate mortgage loans have maturities ranging from five to 40 years and must be secured by first liens on the real estate. These loans may be made only in amounts up to 85% of the appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory maximum percentage.
- Production and intermediate-term loans — for operating funds, equipment and other purposes. Eligible financing needs include operating inputs (such as labor, feed, fertilizer, and repairs), livestock, family living expenses, income taxes, debt payments on machinery or equipment, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically less than 12 months. Intermediate-term loans typically finance depreciable capital assets of a farm or ranch. Examples of the uses of intermediate-term loans are to purchase or refinance farm machinery, vehicles, equipment, breeding livestock, or farm buildings, to make improvements, or to provide working capital. Intermediate-term loans are made for a specific term, generally 10 years or less. These loans may be made on a secured or unsecured basis, but are normally secured.
- Agribusiness loans — may be made on a secured or unsecured basis.
  - Processing and marketing loans — for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
  - Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a

population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans must be secured by a first lien on the property, except that it may be secured by a second lien if the institution also holds the first lien on the property.

Associations may also purchase participations in loans made by other Associations, System Banks and non-System lenders to eligible borrowers or certain entities whose operations are functionally similar to those of an eligible borrower.

Loan Interest Rate and Prepayment Features

Depending on the purpose of the loan, its repayment terms and the creditworthiness of the borrower, several interest rate (fixed or floating) and prepayment features may be available for a loan. Indexed floating-rate loans are tied solely to an external index such as the London InterBank Offered Rate (LIBOR) or the prime rates charged by certain commercial banks (Prime). The interest rate on an adjustable-rate loan may be fixed for a period of time and adjusted periodically by predetermined amounts and may have an adjustment rate cap for each period as well as for the life of the loan. The interest rate on an administered-rate loan may be adjusted periodically on a basis internally determined by the lending institution. The interest rate on a fixed-rate loan will not change for the term of the loan.

A range of prepayment options exists on fixed- and floating-rate loans. These options range from loans with "make-whole" prepayment provisions, i.e., the borrower pays an additional amount when the loan is prepaid to cover the loss from the residual higher-cost funding that can occur as a result of the prepayment, to loans that may be prepaid without any "make-whole" prepayment provisions.

Investments in Rural America

In addition to making loans to accomplish the System's Congressionally mandated mission to finance agriculture and rural America, the Banks and Associations may make investments in rural America to address the diverse needs of agriculture and rural communities across the country. The Farm Credit Administration approves these investments on a program or a case-by-case basis. Examples of investment programs that the Farm Credit Administration will consider include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

Financially Related Services

System institutions also provide a variety of products and services to their borrowers designed to enhance their business. Products and services provided by certain System institutions include:

- credit and mortgage life or disability insurance developed specifically for System borrowers to protect the repayment of loan obligations,
- acting in an agent capacity, various types of crop insurance covering specific risks (e.g., hail, fire, or lightning) and multi-peril crop insurance to protect against unpredictable weather and volatile markets in a combination of yield and revenue-based products,
- livestock risk protection that provides revenue protection during unpredictable declines in the livestock industry,
- estate planning, record keeping, and tax planning and preparation,
- fee appraisal services, and
- cash management products and services and other related services to allow borrowers to more effectively manage their financial positions.

The Banks and Associations make the above-described insurance available through private insurers.

In addition, a subsidiary of one Bank and certain other System institutions provide leasing services to their customers that include a broad spectrum of lease options tailored to the borrower's unique financial needs. These leasing services include the leasing of equipment, vehicles and facilities used by our borrowers in their businesses.

Customers

Our borrowers consist of farmers, ranchers, producers and harvesters of aquatic products, agricultural cooperatives, eligible rural communications, energy and water infrastructure companies, rural homeowners and other eligible entities, including other financial institutions (e.g., national or state banks, trust companies, savings institutions or credit unions).

We make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities. Our loan portfolio at the System level is diversified by commodity and geographic location. On a combined basis, loans to farmers of cash grains totaled 12.3% of the System's total assets at December 31, 2010, up from 10.9% at December 31, 2009. Loans to borrowers raising livestock, which do not include poultry and dairy, represented 9.5% of the System's total assets at December 31, 2010 compared to 10.3% at December 31, 2009. However, due to the geographic territories served by individual Banks and Associations, most System institutions have higher concentrations of certain types of loans or commodities than does the System as a whole.

As part of our mission, we have established policies and programs for furnishing sound and constructive credit and related services to young, beginning, and small farmers and ranchers. A summary of these activities can be found in the Supplemental Financial Information on pages F-70 and F-71.

In accordance with the Farm Credit Act, each borrower, as a condition of borrowing, is generally required to invest in capital stock or participation certificates (non-voting equity investment) of the Association or Bank that originates the loan. The initial investment requirement may vary by Association or Bank, with the minimum being the statutory minimum amount of 2% of the loan amount or one thousand dollars, whichever is less. The different classes of capital stock and participation certificates and the manner in which capital stock and participation certificates are issued, retired and transferred are set forth in the respective Bank's or Association's bylaws. The Bank or Association generally has a first lien on the capital stock and participation certificates as collateral for the repayment of the borrower/stockholder loan. For a more detailed discussion of these requirements, see Note 13 to the System's combined financial statements contained in this annual information statement.

Loan Underwriting Standards

Credit risk arises from the potential inability of a borrower to meet a repayment obligation. This credit risk is managed at both the Association and Bank levels. Farm Credit Administration regulations establish loan-to-value limits for real estate mortgage loans and require that collateral be posted for real estate mortgage loans and some production loans in order to provide security on these loans. System institutions are required to adopt written standards for prudent lending and effective collateral evaluation.

Underwriting by Associations

The Associations manage credit risk through the use of underwriting standards, credit analysis of borrowers and portfolio management techniques. When making a loan, the Associations consider many factors about the borrower and apply certain underwriting standards to the lending process. The factors considered in the underwriting process include borrower integrity, credit history, cash flows, equity, and collateral, as well as other sources of loan repayment, loan pricing and an evaluation of management and the board of directors, if applicable. Additionally, many borrowers have off-farm sources of income that enhance their debt repayment capacity. Other factors that may influence the risk profiles of the lending businesses of Associations include the benefit of vertical integration (control over all stages of production of a commodity) and the impact of urban and recreational influences on real estate values, which tend to reduce farm income volatility at the producer level.

To mitigate credit risk, each Association establishes lending limits, which represent the maximum amount of credit that can be extended to any one borrower or industry. Further, in some instances, portfolio risk is managed through the purchase and sale of loan participations with other lenders in order to diversify the portfolio by borrower, commodity and geography.

Underwriting by Banks

The Banks also employ risk management practices when making wholesale loans to their affiliated Associations and loans to their retail borrowers. With respect to retail lending, the Banks manage credit risk through the use of underwriting standards, credit analysis of borrowers and portfolio management techniques. Similar to the Associations, when making a loan, they consider many factors about the borrower and apply underwriting standards to the lending process. The factors considered, and underwriting standards utilized, include borrower earnings, cash flows, equity, and collateral, as well as loan pricing and an evaluation of management and the board of directors, if applicable.

In the case of wholesale loans to Associations, the assets of the Association secure the Bank's loan to the Association and the lending terms are specified in a

general financing agreement between each Association and its affiliated Bank. These financing agreements typically include:

- measurable, risk-based covenants,
- collateralization of the loan by substantially all Association assets,
- the Bank's prior approval of certain loans made by an Association,
- a defined borrowing base calculation or maximum loan amount,
- a prohibition against other borrowings without the Bank's approval, and
- loan rates tied to financial performance.

Competition

The System competes with other lenders, including local, regional, national and international commercial banks, insurance companies, manufacturers and suppliers, captive finance companies of manufacturers and suppliers and non-traditional lenders. Competition varies throughout the nation. System charters and regulations impose geographic and authority limitations on System institutions that are not imposed on competitors. Commercial banks may also have access to competitively priced funds for their lending activities as these banks have the ability to accept deposits.

Competition is also a consideration in connection with the issuance of Systemwide Debt Securities. In addition to securities issued by the U.S. Treasury, we compete with Fannie Mae, Freddie Mac, the Federal Home Loan Banks, other federal government-sponsored enterprises, foreign governments and other highly rated issuers for funds raised through the issuance of unsecured debt in the debt markets. Increases in the issuance of debt by these other issuers could lead to higher interest costs on, our debt securities than would otherwise be the case. (See "Business — Risk Factors" for a discussion of how changing perceptions of government-sponsored enterprise status may intensify competition in connection with the issuance of Systemwide Debt Securities.)

Federal Farm Credit Banks Funding Corporation

As agent for the Banks, the Funding Corporation issues, markets, and handles Systemwide Debt Securities. The Funding Corporation, which was established by the Farm Credit Act, is owned by the Banks and is located in the metropolitan New York City area. The composition of the board of directors of the Funding Corporation is defined by statute and is comprised of nine voting members: four current or former Bank directors and three Bank chief executive officers or presidents elected by the Banks, and two additional voting members appointed by the other members of the board of directors after receiving recommendations from and consulting with the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System. The additional members cannot be affiliated with the System or our regulator and cannot be actively engaged with a member of the group of banks and securities dealers involved in selling Systemwide Debt Securities. The president of the Funding Corporation serves as a non-voting member of the Funding Corporation's board of directors.

At December 31, 2010, the Funding Corporation utilized a selling group of 30 banks and securities dealers to sell Systemwide Debt Securities. The Funding Corporation's selling group distributes Systemwide Debt Securities on a worldwide basis to investors, including commercial banks, states, municipalities, pension and money-market funds, insurance companies, investment companies, corporations and foreign banks and governments. In addition, the Funding Corporation assists the Banks with respect to a variety of asset/liability management and certain specialized funding activities.

The Funding Corporation, subject to Farm Credit Administration approval, is responsible for determining the amounts, maturities, rates of interest, and terms of each issuance of Systemwide Debt Securities and for establishing conditions of participation in the issuances of Systemwide Debt Securities by the Banks. In this regard, the Funding Corporation and all of the Banks have entered into the Amended and Restated Market Access Agreement. For a detailed discussion of the Market Access Agreement, see "Description of Systemwide Debt Securities — Agreements Among Certain System Institutions — Market Access Agreement" below.

The Funding Corporation also provides the Banks with certain consulting, accounting, and financial reporting services, including the preparation of the System's quarterly and annual information statements and the System's combined financial statements contained in the quarterly and annual information statements. As the System's financial spokesperson, the Funding Corporation is primarily responsible for

financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.

Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac, which is statutorily defined as an institution of the System and is examined and regulated by the Farm Credit Administration, provides a secondary market for qualified agricultural mortgage loans, rural housing mortgage loans, rural utilities loans (to cooperative borrowers made by cooperative lenders) and the guaranteed portion of agricultural and rural development loans guaranteed by the U.S. Department of Agriculture. The common stock of Farmer Mac is owned by both System and non-System entities and its board of directors has both System and non-System representation. Other than the contractual obligations arising from business transactions between Farmer Mac and certain System institutions, Farmer Mac is not liable for any debt or obligation of any other System institution and no System institution other than Farmer Mac is liable for any debt or obligation of Farmer Mac. Further, the assets of the Farm Credit Insurance Fund do not support any debt issuances or obligations of Farmer Mac nor do the System's independent credit ratings apply to Farmer Mac. Accordingly, the financial information of Farmer Mac is not included in the combined financial statements of the System.

Some System institutions have entered into guarantee agreements with Farmer Mac that are intended to reduce their credit risk and/or manage their capital positions. These agreements are commonly referred to as long-term standby commitment to purchase agreements. System institutions may also securitize mortgage loans by exchanging the loans for Farmer Mac mortgage-backed securities. At December 31, 2010 and 2009, Farmer Mac guaranteed $1.677 billion and $2.076 billion of loans issued by System institutions and System institutions had exchanged $1.375 billion and $1.256 billion of loans for mortgage-backed securities issued by Farmer Mac.

The Farm Credit Council

The Farm Credit Council is a federated trade association representing the System before Congress, the Executive Branch and others. The Council provides the mechanism for member "grassroots" involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System.

Governance

Boards of Directors

Each Bank and Association has its own board of directors, which is primarily comprised of directors elected by the stockholders, that oversees the management of the Bank or the Association. Farm Credit Administration regulations require each Bank and Association to have a nominating committee that is responsible for identifying, evaluating and nominating candidates for director positions. Each committee should nominate at least two candidates for each director position. Stockholder-elected directors must constitute at least 60 percent of the members of the board. Therefore, each board may include additional directors appointed by the stockholder-elected directors. In addition, each Bank and each Association with assets exceeding $500 million is required to have at least two outside directors. All other Associations must have at least one outside director. Each Bank and Association board must have a member who is a financial expert, except for those Associations with assets of $500 million or less, who may retain a financial advisor. The boards of directors represent the interests of the stockholders of their particular institution. Each board of directors performs the following functions, among others:

- selects, compensates and evaluates the chief executive officer,
- approves the strategic plan and annual operating plans and budget,
- advises management on significant issues facing the institution, and
- oversees the financial reporting process, communications with stockholders and the institution's legal and regulatory compliance.

In addition to having a nominating committee, each Bank and Association has an audit committee and a compensation committee and may also have additional committees as determined by the board of the Bank or Association. The audit committee members must be members of the board and any board member designated as a financial expert must serve on the audit committee. The audit committee is responsible for the oversight of the financial reporting process and the internal controls related to the preparation of the financial reports, and the appointment, compensation

and retention of the independent auditors. The compensation committee is responsible for reviewing compensation policies and plans for senior officers and employees, and must approve the overall compensation program for senior officers. In addition, the Funding Corporation has a board of directors, an audit committee and a compensation committee that perform the same functions for the Funding Corporation.

Presidents' Planning Committee

The Presidents' Planning Committee is comprised of the chief executive officer or president of each Bank, one Association from each District, the Funding Corporation, The Farm Credit Council and certain large Associations. The Presidents' Planning Committee serves in a management coordination capacity for the System and provides a key advisory role in the System's decision-making process.

The Presidents' Planning Committee has certain broad responsibilities including:

- establishing and advancing strategic direction,
- identifying and analyzing business opportunities,
- providing advice and recommendations on legislative and regulatory issues, and
- improving communications within the System and with the System's various stakeholders and external entities.

The Presidents' Planning Committee carries out these responsibilities with the objective of promoting and protecting the System's core values and strengths. Subcommittees of the Presidents' Planning Committee include: the Executive Committee, the Risk Management Committee, the Finance Committee, and the Regulatory, Legislative and Public Relations Committee. These subcommittees aid System communication and promote the sharing of best practices. The subcommittees actively engage in discussions about topics where common action is needed by the System.

Coordinating Committee

The Coordinating Committee, which was formed in 2010, is composed of the Chairman, Vice Chairman and chief executive officer of the Funding Corporation, the Chairman and Vice Chairman of the Presidents' Planning Committee and one additional member of the Presidents' Planning Committee who is an Association chief executive officer, and the executive committee of The Farm Credit Council board of directors.

The Coordinating Committee's mission is to address issues that impact the System at the national level. This includes monitoring developments in the U.S. and world economies, the financial markets, agriculture, public policy, and regulatory developments to determine if threats or opportunities exist that demand a coordinated, System-level approach.

The Coordinating Committee has certain responsibilities including:

- ensuring coordination among the Funding Corporation board of directors, The Farm Credit Council board of directors and the Presidents' Planning Committee,
- establishing System-level planning and contingency priorities, and identifying and responding to emerging issues, threats or opportunities that require attention at the national level,
- providing overall direction and oversight of activities related to the established priorities, and
- communicating with boards and management of System institutions on a timely basis regarding activities of the Coordinating Committee.

System Audit Committee

As required by regulation, the board of directors of the Funding Corporation has established a System Audit Committee and adopted a written charter for the Committee. The charter provides for a Committee comprised of five members — one of the Funding Corporation's outside directors, two Bank or Association directors, one outside person who has no current affiliation with the System and is a financial expert, and either the second Funding Corporation outside director or a second outside person at the Funding Corporation board's discretion (the second outside person must have no current affiliation with the System and be a financial expert). Under the charter, the Funding Corporation's board of directors selects all members of the System Audit Committee and appoints the chairman and vice chairman. The chairman of the System Audit Committee must be a financial expert. A copy of the charter is available on the Funding Corporation's website at www.farmcredit-ffcb.com.

The System Audit Committee reports to the board of directors of the Funding Corporation. The

responsibilities of the System Audit Committee include, among other things:

- the oversight of the Funding Corporation's system of internal controls related to the preparation of the System's quarterly and annual information statements,
- the integrity of the System's quarterly and annual information statements,
- the review and assessment of the impact of accounting and auditing developments on the System's combined financial statements,
- the review and assessment of the impact of accounting policy changes related to the preparation of the System's combined financial statements,
- the appointment, compensation, retention and oversight of the System's independent auditors,
- the pre-approval of allowable non-audit services at the System level,
- the establishment and maintenance of procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters at the System level and for the confidential, anonymous submission of concerns regarding questionable System accounting, internal accounting controls or auditing matters,
- the receipt of various reports from Funding Corporation management on internal controls, off-balance sheet arrangements, critical accounting policies, and material alternative accounting treatments,
- the review and approval of the scope and planning of the annual audit by the System's independent auditors,
- the approval of policies and procedures for the preparation of the System's quarterly and annual information statements, and
- the review and approval of the System's quarterly and annual information statements and financial press releases, after discussions with management and the independent auditors.

Internal Control Over Financial Reporting

To enhance our governance and internal controls, the System voluntarily implemented policies and procedures to assess the System's internal control over financial reporting beginning with the year ended December 31, 2005. As of January 2008, this assessment became required by regulation. The System's management is responsible for establishing and maintaining internal control over financial reporting and the Funding Corporation's management has assessed the effectiveness of the System's internal control over financial reporting as of December 31, 2010, 2009 and 2008. The Funding Corporation's management has used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework* to assess the effectiveness of internal control over financial reporting and has included this report on the assessment on page F-2 of this annual information statement.

The System has also engaged PricewaterhouseCoopers LLP, the System's independent auditors, to opine on the effectiveness of the System's internal control over financial reporting based on their integrated audits. Their report can be found on page F-3.

Code of Ethics

Each Bank and the Funding Corporation have adopted codes of ethics that apply to their chief executive officers, certain other executives, and senior professionals in the finance and accounting areas who are involved with the preparation of the System's financial statements and the maintenance of the financial records supporting the financial statements.

A copy of the Funding Corporation's code of ethics related to the preparation of the System's quarterly and annual information statements can be accessed on the Funding Corporation's website at www.farmcredit-ffcb.com. The Funding Corporation will disclose material amendments to or any waivers from a required provision of the codes of ethics for any individual covered by the Banks' or the Funding Corporation's codes of ethics by including that information in future information statements. No such amendments or waivers were made in 2010. Each Bank's code of ethics includes similar content and can be accessed through its website listed on page 2.

Complaints Regarding Accounting, Internal Accounting Controls and Auditing Matters

Each Bank and the Funding Corporation have adopted employee complaint procedures for accounting, financial reporting, internal accounting controls, or auditing matters. These procedures allow employees to submit confidential, anonymous concerns

regarding accounting, financial reporting, internal accounting controls, or auditing matters without the fear of reprisal, retaliation or adverse action being taken against any employee who, in good faith, reports or assists in the investigation of a violation or suspected violation, or who makes an inquiry about the appropriateness of an anticipated or actual course of action. No concerns or inquiries were submitted in 2010.

Employees

The number of personnel employed by the System on a full-time equivalent basis was 12,058 at December 31, 2010, up from 11,915 at December 31, 2009, and 11,814 at December 31, 2008.

Properties

As of December 31, 2010, AgFirst owned its corporate office in Columbia, South Carolina and U.S. AgBank owned its corporate office in Wichita, Kansas. The other three Banks each leased their respective corporate offices. In addition, AgFirst owned additional buildings in Columbia, South Carolina. Certain Banks leased other offices throughout the country and, in the case of CoBank, internationally. The Associations owned or leased various offices in locations throughout the United States and Puerto Rico. The Funding Corporation leased office space in Jersey City, New Jersey.

As authorized by the Farm Credit Act, the Farm Credit Administration occupies buildings and uses land owned and leased by the Farm Credit System Building Association, an entity jointly owned by the Banks. The headquarters for the Farm Credit Administration is located in McLean, Virginia.

FEDERAL REGULATION AND SUPERVISION OF THE FARM CREDIT SYSTEM

The following summaries of certain provisions of the Farm Credit Act, the Farm Credit Administration regulations and the Farm Credit System Insurance Corporation regulations should not be viewed as complete and are qualified in their entirety by reference to the provisions of the Farm Credit Act and these regulations.

Farm Credit Administration

As a federally chartered network of lending institutions and related service organizations that performs a public policy function, the System is subject to Congressional legislation and oversight. The Farm Credit Administration, an independent federal regulatory agency, has jurisdiction over System institutions. A three-member full-time board appointed by the President of the United States with the advice and consent of the Senate manages the Farm Credit Administration.

The Farm Credit Administration examines each System institution not less than once during each 18-month period. The examinations may include analyses of credit and collateral quality, capitalization, earnings, interest rate risk, the effectiveness of management, and the application of policies in carrying out the Farm Credit Act, in adhering to the Farm Credit Administration regulations, and in serving eligible borrowers.

Further, the Farm Credit Act authorizes the Farm Credit Administration to take specified enforcement actions to ensure the safe and sound operations of System institutions and their compliance with the Farm Credit Act and Farm Credit Administration regulations. These enforcement powers include the power to:

- issue cease and desist orders,
- suspend or remove a director or an officer of a System institution, and
- impose specified civil money penalties for certain violations of the Farm Credit Act, Farm Credit Administration regulations or certain orders of the Farm Credit Administration.

In addition, Farm Credit Administration regulations provide that if the Farm Credit Administration determines, after consultation with the Funding Corporation, that a financial, economic, agricultural or national defense crisis exists that could impede the normal access of the Banks to the capital markets, the Farm Credit Administration Board shall, in its sole discretion, adopt a resolution that:

- increases the amount of eligible investments that a Bank is authorized to hold, and/or,
- modifies or waives the liquidity reserve requirement.

Farm Credit Administration Regulations

The Farm Credit Act authorizes, and in some instances requires, the Farm Credit Administration to issue regulations governing various operations of System institutions and subjects certain actions by System institutions to the approval of the Farm Credit Administration. These regulations and approval requirements include the following:

Issuances of Systemwide Debt Securities

Under the Farm Credit Act, determinations by the Funding Corporation as to the amounts, maturities, rates of interest, terms, and conditions of participation by the Banks in each issuance of Systemwide Debt Securities are subject to Farm Credit Administration approval.

Lending Objective

In accordance with the Farm Credit Administration regulations, the lending objective of System institutions is to provide full credit, to the extent of creditworthiness, to borrowers whose primary business is farming, ranching, or producing or harvesting aquatic products; conservative credit to part-time farmers and to rural homeowners; and more restricted credit for other credit requirements as needed to ensure a sound credit package or to accommodate a borrower's needs as long as the total credit results in being primarily an agricultural loan. System institutions are specifically prohibited from extending credit where investment in agricultural assets is primarily for speculative purposes.

Consistent with our mission of serving rural America, we also make loans to agricultural cooperatives, to finance rural communication, energy and water infrastructures and to support agricultural exports and to finance other eligible entities.

Borrower Protections

The Farm Credit Act and/or the Farm Credit Administration regulations provide the following protections to most System institution borrowers:

- prior to loan closing, System institutions must provide borrowers with extensive disclosure-related information and copies of appraisals, if any,
- System institutions must provide borrowers with access to a Credit Review Committee hearing on an adverse action taken on a loan application or a request for loan restructuring, if requested,
- borrowers have the right of first refusal to lease or repurchase any real estate acquired from them by a System lender, and
- System institutions must protect the nonpublic personal information of their borrowers.

Bank Collateral Requirements

As a condition of a Bank's participation in the issuance of Systemwide Debt Securities, the Bank must have, and at all times thereafter maintain, free from any lien or other pledge, specified eligible assets (referred to in the Farm Credit Act as "collateral") at least equal in value to the total amount of outstanding debt securities of the Bank that are subject to the collateral requirement. These securities include Systemwide Debt Securities for which the Bank is primarily liable and investment bonds or other debt securities that the Bank has issued individually, except for subordinated debt. The collateral must consist of notes and other obligations representing loans or real or personal property acquired in connection with loans made under the authority of the Farm Credit Act (valued in accordance with Farm Credit Administration regulations and directives), obligations of the United States or any agency thereof direct or fully guaranteed, other Farm Credit Administration-approved Bank assets, including eligible marketable securities, or cash. These collateral requirements do not provide holders of Systemwide Debt Securities with a security interest in any assets of the Banks. The Banks may in the future issue Systemwide Debt Securities that are secured by specific assets.

Farm Credit Administration regulations require the Banks to maintain a net collateral ratio of at least 103% (as discussed in "Capital Adequacy" below). However, in connection with preferred stock and subordinated debt offerings, each Bank is required by the Farm Credit Administration to maintain a minimum net collateral ratio of 104%. The Banks manage their operations to achieve a higher net collateral ratio percentage. The net collateral ratio is net collateral (primarily loans and investments) divided by total liabilities less subordinated debt, subject to certain limits. The net collateral ratio is much more restrictive than the debt issuance collateral requirement. Therefore, if a minimum net collateral ratio of 103% is met, the debt issuance collateral requirement is automatically met.

Capital Adequacy

Farm Credit Administration regulations require that the Banks and Associations achieve and maintain a permanent capital level of at least 7% of risk-adjusted assets. Risk-adjusted assets mean the total dollar amount of the System institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. In addition, these regulations require that:

- all Banks and Associations achieve and maintain a total surplus level of at least 7% of risk-adjusted assets and a core surplus level of at least 3.5% of risk-adjusted assets, and
- all Banks achieve and maintain a net collateral ratio of at least 103%. However, in connection with preferred stock and subordinated debt offerings, the Banks are required to maintain a minimum net collateral ratio of 104%.

Also, each System institution is required to adopt a written capital adequacy plan. The plan must include capital targets that are necessary to achieve the institution's capital adequacy goals as well as maintain the minimum permanent capital and surplus standards.

Accounting Requirements

Farm Credit Administration regulations require that each System institution prepare all financial statements in accordance with accounting principles generally accepted in the United States. The financial statements must be audited by qualified independent auditors on an annual basis.

Internal Controls

Farm Credit Administration regulations require that each System institution adopt an internal control policy that provides adequate direction to the

institution in establishing effective control over and accountability for operations, programs, and resources.

Disclosure Obligations

The Banks, the Associations and the Funding Corporation must prepare and file with the Farm Credit Administration quarterly and annual reports that comply with Farm Credit Administration regulations:

- Each Bank and Association must prepare and publish its annual report on its website and submit a copy to the Farm Credit Administration within 75 days of the end of its fiscal year. In addition, each Bank and Association must prepare and provide to its shareholders an annual report within 90 days of the end of its fiscal year. The annual report must include, among other things, a description of the System institution's business, properties, capital structure, risk exposures, loan portfolio and financial performance. Each Bank and Association must prepare a quarterly report within 40 days after the end of each fiscal quarter. The quarterly reports update and supplement the last annual report, as necessary.

- The Funding Corporation must prepare and disseminate a System annual information statement for holders of Systemwide Debt Securities and other users of the annual information statement within 75 days of the end of each fiscal year and file a copy with the Farm Credit Administration. The annual information statement must include, among other things, a description of the System's business, properties, capital structure, risk exposures, loan portfolio and financial performance. The Funding Corporation must also prepare a quarterly information statement within 45 days after the end of each fiscal quarter. The quarterly information statements update and supplement the System's latest annual information statement, as necessary.

- The Banks and the Funding Corporation are responsible for disclosure of information concerning the System to investors in Systemwide Debt Securities. The Banks are required to provide specified information to the Funding Corporation so that it can prepare the System information statements. Further, the Funding Corporation is required to establish a system of internal controls sufficient to reasonably ensure that any information it releases to investors or the general public is true and accurate, and that there are no omissions of material information.

- The appropriate officers and board members from each Bank, Association and the Funding Corporation must certify that the information contained in the quarterly and annual reports or information statements they prepare and file with the Farm Credit Administration is true, accurate and complete to the best of their knowledge and belief.

Withdrawal from the System

The Farm Credit Act permits a Bank or an Association to withdraw from the System to become chartered by a federal or state authority as a bank, savings association or other financial institution if certain restrictive requirements are met, including:

- adequate provision for the payment of all of the institution's obligations to other System entities,

- if a Bank, adequate provision for the repayment of its Systemwide Debt Securities and related interest,

- approval of the Farm Credit Administration Board,

- approval by the institution's stockholders, and

- payment by the institution to the Insurance Fund of an amount by which its total capital exceeds 6% of its assets.

Appointment of Conservator or Receiver

The Farm Credit Administration also has the exclusive authority to appoint a conservator or receiver for any System institution under circumstances specified in the Farm Credit Act and has promulgated regulations governing receiverships and conservatorships. The Farm Credit Act provides that the Insurance Corporation will serve as receiver or conservator of any System institution placed in receivership or conservatorship by the Farm Credit Administration and authorizes the Insurance Corporation to issue certain rules and regulations relating to its statutory authorities.

Farm Credit System Insurance Corporation

The Insurance Corporation is an independent U.S. government-controlled corporation and is not under the control of any System institution. The Insurance Corporation's primary purpose is to insure the timely payment of principal and interest on Systemwide Debt Securities. It also carries out various other responsibilities. A board of directors consisting of the Farm Credit Administration Board directs the Insurance Corporation. The chairman of the Insurance Corporation's board of directors must be someone other than the current chairman of the Farm Credit Administration Board.

Uses of the Farm Credit Insurance Fund

The Insurance Corporation is required to expend funds in the Insurance Fund, which can only be used for the benefit of the System, to:

- insure the timely payment of principal and interest on Systemwide Debt Securities, and
- ensure the retirement of protected borrower stock at par value ($7 million as of December 31, 2010).

Further, subject to the provisions of the Farm Credit Act, the Insurance Corporation, in its sole discretion, is also authorized to expend funds in the Insurance Fund to pay its operating expenses, to assist a financially stressed Bank or Association, and to assist qualified merging institutions. The Insurance Corporation cannot provide this discretionary assistance to an institution unless the means of providing this assistance is the least costly of all possible alternatives available to the Insurance Corporation.

The Insurance Corporation may also, in its sole discretion, make loans on the security of, or may purchase, and liquidate or sell, any part of the assets of any Bank or Association that is placed in receivership because of the inability of the institution to pay the principal or interest on any of its notes, bonds, debentures, or other obligations in a timely manner.

Funding for the Farm Credit Insurance Fund

The Insurance Corporation's primary asset is the Insurance Fund and the primary sources of funds for the Insurance Fund are:

- the premiums paid by the Banks, and
- earnings on assets in the Insurance Fund.

The premiums are based on each Bank's pro rata share of adjusted outstanding insured debt, as reduced by loans and investments guaranteed by federal or state governments, with 20 basis points being the statutory maximum the Banks may be assessed. Up to an additional 10 basis points may be assessed on nonaccrual loans or investments that are other-than-temporarily impaired. The Insurance Corporation conducts a semi-annual review of insurance premium levels and adjusts the premium levels based on certain criteria. Furthermore, the Insurance Corporation, in its sole discretion, may reduce the annual premiums due from each Bank. Each Bank is authorized to assess its affiliated Associations and other financing institutions in order to pay the premiums.

Premiums are collected to maintain the Insurance Fund at the "secure base amount," which is defined in the Farm Credit Act as 2% of the aggregate outstanding insured obligations (adjusted to reflect the System's reduced risk on loans and investments guaranteed by federal or state governments) or another percentage of the aggregate outstanding insured obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. The Insurance Corporation has adopted a Policy Statement addressing the periodic determination of the secure base amount that is currently set at the 2% level.

When the Insurance Fund is at or above the 2% secure base amount, the Insurance Corporation is required to reduce premiums, as necessary, to maintain the Insurance Fund at the 2% level. In addition, the Insurance Corporation is required to establish Allocated Insurance Reserves Accounts for each Bank and an Allocated Insurance Reserves Account for former Farm Credit System Financial Assistance Corporation stockholders under certain circumstances. The Insurance Corporation has established a policy to allocate excess Insurance Fund balances above the secure base amount into these accounts. These reserve accounts remain part of the Insurance Fund, and, therefore, may be used for statutorily authorized Insurance Corporation purposes. The Insurance Corporation may also distribute all or a portion of these reserve accounts to the Banks, as was the case in 2010.

For additional information with respect to the Insurance Fund, see "Description of Systemwide Debt Securities — Repayment Protections" and Note 7 to the accompanying combined financial statements.

DESCRIPTION OF SYSTEMWIDE DEBT SECURITIES

General

The System obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities. Each issuance of Systemwide Debt Securities must be approved by the Farm Credit Administration and each Bank's participation is subject to: (1) the availability of specified eligible assets (referred to in the Farm Credit Act as "collateral" as previously described), (2) compliance with the conditions of participation as prescribed in the Amended and Restated Market Access Agreement, and (3) determinations by the Funding Corporation of the amounts, maturities, rates of interest, and terms of each issuance. Systemwide Debt Securities are issued pursuant to authorizing resolutions adopted by the boards of directors of each Bank and under the authority of the Farm Credit Act and the Farm Credit Administration regulations. The following summary descriptions of Systemwide Debt Securities should not be viewed as complete and are qualified in their entirety by reference to the offering circulars pertaining to the particular types of debt securities, the provisions of the Farm Credit Act and the Farm Credit Administration regulations.

Systemwide Debt Securities are the general unsecured joint and several obligations of the Banks. Systemwide Debt Securities are not obligations of and are not guaranteed by the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as a result, the capital of the Associations may not be available to support principal or interest payments on Systemwide Debt Securities. Systemwide Debt Securities are not required to be registered and have not been registered under the Securities Act of 1933. In addition, the Banks are not required to file and do not file periodic reports under the Securities Exchange Act of 1934. Systemwide Debt Securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of any offering material. For additional financial information with respect to the Banks, see Note 22 to the accompanying combined financial statements.

Each issuance of Systemwide Debt Securities ranks equally, in accordance with the Farm Credit Administration regulations, with the System's other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The System may issue the types of Systemwide Debt Securities listed on page 1 of this annual information statement. For a discussion of the various risks, tax and other considerations, and terms and conditions related to each of these types of securities, see the discussions in the offering circulars listed on page 1 of this annual information statement, each of which may be amended or supplemented from time to time.

Use of Proceeds

Net proceeds from sales of Systemwide Debt Securities are used by the Banks to fund their loan and investment portfolios (which include loans to their affiliated Associations), to fund operations, to meet maturing debt obligations, and for other corporate purposes. The Banks anticipate that additional financing, including financing through various types of debt securities, will be required from time to time. The amount and nature of the financings depend on a number of factors, including the volume of the Banks' maturing debt obligations, the volume of loans made by and repaid to System institutions, and general market conditions.

Repayment Protections

General

While the repayment of Systemwide Debt Securities is the direct joint and several obligation of the Banks, there are several sources of funds in the System for the payment of interest and principal due on the securities. The underlying source of funds for the repayment of Systemwide Debt Securities is the System's borrowers, with each borrower having certain minimum levels of net worth and, in most cases, collateral posted in connection with loans made to the borrower. These borrowers make payments on their loans to the lending Bank or Association. The lending Associations in turn make payments on their wholesale loans to their affiliated lending Bank. Both the Banks, which ultimately repay Systemwide Debt Securities, and the Associations have capital as further protection and sources of support for the repayment of their outstanding debt. Each Bank's ability to

participate in a particular issue of Systemwide Debt Securities is regulated and monitored by the Farm Credit Administration. Furthermore, the Banks and the Funding Corporation have entered into the Amended and Restated Market Access Agreement that sets forth certain conditions of participation for the Banks, as described below.

Under each Bank's bylaws, the Bank is authorized under certain circumstances to require its affiliated Associations and certain other equity holders to purchase additional Bank equities. In most cases, the Banks are limited as to the amounts of these purchases that may be required, generally with reference to a percentage of the Association's or other equity holder's direct loan from the Bank. However, the Banks also generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced District operating and financing policies.

If a Bank participating in an issue of Systemwide Debt Securities were unable to repay its portion of that security, the Insurance Fund would be required to make that payment. In the event the assets in the Insurance Fund were exhausted, the provisions of joint and several liability of all the Banks would be triggered, which means the financial resources of the other Banks would be called upon to repay the defaulting Bank's portion of the debt issuance.

Net Collateral Ratio

Farm Credit Administration regulations require each Bank to maintain a minimum net collateral ratio of 103%. However, in connection with preferred stock and subordinated debt offerings, the Banks are required by the Farm Credit Administration to maintain a minimum net collateral ratio of 104%. The Banks manage their operations to achieve a higher net collateral ratio percentage than required. The net collateral ratio is net collateral (primarily loans and investments) divided by total liabilities less subordinated debt, subject to certain limits. Also see "Federal Regulation and Supervision of the Farm Credit System — Farm Credit Administration Regulations — Bank Collateral Requirements" above.

Capital Adequacy

Farm Credit Administration regulations require that each Bank and Association achieve and maintain permanent capital and certain surplus to assets ratios. In addition, the Banks are required to maintain a minimum net collateral to liabilities ratio, as well as develop a capital adequacy plan, each as described above in "Federal Regulation and Supervision of the Farm Credit System — Farm Credit Administration Regulations — Capital Adequacy."

Agreements Among Certain System Institutions

In order to provide for mutual protection among the Banks with respect to their debt obligations, the Banks have voluntarily entered into integrated agreements that contain certain financial covenants. These integrated agreements are the Amended and Restated Market Access Agreement and the Amended and Restated Contractual Interbank Performance Agreement. A copy of the Amended and Restated Market Access Agreement and a summary of the Amended and Restated Contractual Interbank Performance Agreement are available on the Funding Corporation's website located at www.farmcredit-ffcb.com.

Amended and Restated Market Access Agreement (MAA) — The Banks and the Funding Corporation have entered into the MAA. The MAA is designed to provide for the identification and resolution of individual Bank financial problems in a timely manner. The MAA also discharges the Funding Corporation's statutory responsibility for determining conditions for each Bank's participation in each issuance of Systemwide Debt Securities. The MAA establishes criteria and procedures for the Banks that provide operational oversight and control over a Bank's access to System funding if the creditworthiness of the Bank declines below certain agreed-upon levels.

If a Bank fails to meet the performance criteria, it will be placed into one of three categories. Each category gives the other System Banks progressively more control over a Bank that has declining financial performance under the MAA performance criteria. A "Category I" Bank is subject to additional monitoring and reporting requirements; a "Category II" Bank's ability to participate in issuances of Systemwide Debt Securities may be limited to refinancing maturing debt obligations; and a "Category III" Bank may not be permitted to participate in issuances of Systemwide Debt Securities. No limitations on the participation in the issuances of Systemwide Debt Securities are associated with being in "Category I." A Bank exits these categories by returning to compliance with the agreed-upon performance criteria.

Under the MAA, once a Bank is placed in "Category I," a committee of representatives from the Banks and the Funding Corporation (Committee) is

formed within seven days after receiving notice of non-compliance by a Bank. Within 30 days of receiving a notice, the Bank in "Category I" is required to provide to the Committee certain information including: (a) a detailed explanation of the causes of the Bank being in "Category I," (b) an action plan to improve the Bank's financial situation so that it is no longer in "Category I," (c) a timetable for achieving that result, and (d) certain financial information, such as a business plan and external auditor reports. In addition, periodic updates are provided to the Committee regarding certain Bank financial information and credit quality indicators as well as certain regulatory information.

For additional discussion of the criteria and standards under the MAA, and the resulting categories and restrictions if the standards are not met, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management — Structural Risk Management."

Amended and Restated Contractual Interbank Performance Agreement (CIPA) — The Banks and the Funding Corporation have also entered into the CIPA. Under provisions of the CIPA, a quarterly CIPA score is calculated that measures the financial condition and performance of each District using various ratios that take into account the District's capital, asset quality, earnings, interest-rate risk and liquidity. The average of the last four quarterly CIPA scores is then compared against the agreed-upon standard of financial condition and performance in the CIPA that each District must achieve and maintain. The CIPA also establishes economic incentives whereby monetary penalties are applied if the performance standard is not met.

Farm Credit Insurance Fund

The Insurance Corporation insures the timely payment of principal and interest on Systemwide Debt Securities. The Insurance Corporation maintains the Insurance Fund for this purpose and for certain other purposes. In the event a Bank is unable to timely pay principal or interest on any insured debt obligation for which that Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the debt obligation cannot be invoked until all amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the U.S. government.

Joint and Several Liability

The Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities. If a Bank is unable to pay the principal or interest on a Systemwide Debt Security and if the amounts in the Insurance Fund have been exhausted, the Farm Credit Administration is required to make calls on all non-defaulting Banks to satisfy the liability. These calls would be in the proportion that each non-defaulting Bank's "available collateral" ("available collateral" is collateral in excess of the aggregate of the Bank's "collateralized" obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls were not sufficient to satisfy the liability, then a further call would be made in proportion to each non-defaulting Bank's remaining assets. In making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit Administration is required to appoint the Insurance Corporation as the receiver for the defaulting Bank. The receiver would be required to expeditiously liquidate the Bank.

Status in Liquidation

Farm Credit Administration regulations provide that in the event a Bank is placed in liquidation, holders of Systemwide Debt Securities have claims against the Bank's assets, whether or not the holders file individual claims. The claims of these holders are junior to claims related to costs incurred by the receiver in connection with the administration of the receivership, claims for taxes, claims of secured creditors, and claims of holders of bonds, including investment bonds, issued by the Bank individually, to the extent the bonds are collateralized in accordance with the requirements of the Farm Credit Act. Further, claims of holders of Systemwide Debt Securities are senior to all claims of general creditors. If particular Systemwide Debt Securities were offered on a secured basis, the holders of these obligations would have the priority accorded secured creditors of the liquidating Bank. To date, the Banks have not issued secured Systemwide Debt Securities.

Contingency Funding Program

The Banks have established a Contingency Funding Program to provide for contingency financing mechanisms and procedures to address potential disruptions in the System's communications, operations and payments systems and to cover events that threaten continuous market access by the Banks or the Funding Corporation's normal operations. Under this Program, the Funding Corporation has the option to finance all Systemwide Debt Securities through the issuance of Systemwide discount notes either directly to institutional investors or through the selling group. The Funding Corporation, on behalf of the Banks, may also incur other obligations, such as Federal funds purchased, that would be the joint and several obligations of the Banks and would be insured by the Insurance Corporation to the extent funds are available in the Insurance Fund.

RISK FACTORS

The following discussion summarizes some of the more important risks that the System faces. This discussion is not exhaustive and there may be other risks that the System faces that are not described below. The risks described below, if realized, could have a significant negative affect on the System's business, financial condition, and results of operations, and, among other things, could result in the Banks' inability to pay principal and interest on Systemwide Debt Securities on a timely basis.

The System's business is directly affected by agricultural and other economies.

The System's financial condition is directly impacted by factors affecting the agricultural, rural and other economies, since these factors impact the demand for loans and financial services offered by the System and the ability of System borrowers to make payments on loans. These factors may include:

- weather-related, disease, and other adverse climatic or biological conditions that impact the agricultural productivity and income of System borrowers,
- volatile prices of agricultural commodities,
- changes in production expenses, particularly feed, fuel and fertilizer,
- changes in land values,
- irrigation water availability and cost, and environmental standards,
- availability and cost of agricultural workers,
- political, legal, regulatory, financial markets and economic conditions and developments in the United States and abroad that can affect such things as the price of commodities or products used or sold by System borrowers, including the volatility thereof, as well as changes in the relative value of the U.S. dollar,
- changes in the general economy that can affect the availability of off-farm sources of income and prices of real estate, and
- the development of alternative uses and markets for agricultural commodities, including ethanol and other biofuel production, and the resulting impact on the prices of commodities sold or used by System borrowers.

Therefore, agricultural recessions or downturns or other factors negatively impacting the agricultural economy could impair the ability of System borrowers' to repay loans, which, in turn, could increase the System's non-performing assets, decrease the value of the System's loan portfolio, reduce the System's loan origination volume, and decrease the value of collateral securing some of the System's loans, which would have a significant adverse impact on the System's financial condition and results of operating results.

The System's funding costs and flexibility in accessing the debt markets are directly affected by factors impacting the U.S. and global financial markets.

Our ability to fund our operations, meet our financial obligations and generate income depends on our ability to issue Systemwide Debt Securities in the debt markets on a regular basis with select maturities and structures and at attractive rates. Our inability to access the debt markets may arise due to circumstances that we may be unable to control, such as a general market disruption, negative views about government-sponsored enterprises or the financial services industry generally, or an operational problem that affects third parties or us. In 2010, following the severe stress in the financial markets in the prior years, the financial markets continued to improve and investor demand for all types of Systemwide Debt Securities was generally favorable. Throughout this period of sustained financial market turbulence, the System has been able to support its mission of providing credit to farmers, ranchers and other eligible borrowers.

System institutions have been and are continuing to respond to potential funding challenges with appropriate actions, including maintaining higher levels of liquidity, adjusting loan structures and payment terms, and, in appropriate cases, increasing pricing to customers based on risk. However, the System's financial condition and results of operations will be adversely affected if available funding is reduced below the amount needed to fund operations. A disruption in our ability to access the debt markets would have a significant negative impact on the financial condition of the System.

In addition to issuances of Systemwide Debt Securities, System institutions have accessed other third party capital to support adequate regulatory capital levels and loan growth. Issuances include both preferred stock and subordinated debt. These third party capital sources have supplemented the System's issuances of Systemwide Debt Securities. To the extent that these third party capital sources are not

available or the cost of issuing such capital is too high, overall System growth may be reduced.

Uncertainty about the future of government-sponsored enterprises could have a significant adverse impact on the System's ability to issue debt at the favorable rates and terms it has historically been able to obtain, and may negatively affect its business prospects, earnings, capital or liquidity.

The System's government-sponsored enterprise status has been an important factor in its ability to continually access the debt capital markets. In addition, the System's funding costs have historically been substantially below that of similar non-government-sponsored entities. However, as a direct result of the financial difficulties experienced by the housing-related government-sponsored enterprises, with both Fannie Mae and Freddie Mac having been placed into conservatorship by the U.S. government, government-sponsored enterprise status has been and will continue to be a topic of debate and concern to various stakeholders. In this regard, 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," which sets forth recommendations to Congress related to the future of Fannie Mae and Freddie Mac. While this study did not specifically include or relate to the System, a potential risk exists that the System, as a government-sponsored enterprise, may directly or indirectly be impacted by the decisions made as Congress addresses Fannie Mae, Freddie Mac and federal home loan finance. Any changes resulting from a change in the general perception by investors of government-sponsored enterprise status could have a significant adverse impact on the System's ability to issue debt at the favorable rates and terms.

Volatility in the agricultural commodities market and in the cost of farm inputs can result in higher risk profiles for certain System borrowers.

Volatility in commodities prices, coupled with fluctuations in production expenses, may have an adverse impact on the cash flow and profitability of certain System borrowers, which, in turn, may negatively affect their ability to repay their loans. While certain borrowers are negatively impacted by these conditions, other System borrowers may benefit. In particular, increased prices for grains will result in higher risk profiles for livestock producers, processors and marketers of grains and oilseeds, and borrowers that use corn or other grains in their products. However, grain farmers would benefit from higher prices. Volatility in the agricultural commodities market and the cost of farm inputs may adversely impact the credit quality of the System's loan portfolio and, as a result, negatively affect the System's operating results.

Agriculture has experienced a sustained period of favorable economic conditions. However, in an environment of less favorable economic conditions in agriculture, and without sufficient government support programs, the System's financial performance and credit quality measures would likely be negatively impacted.

In general, the overall U.S. farm economy has experienced a prolonged period of favorable economic conditions that has been marked by high and persistent levels of volatility in agricultural commodity prices and input costs. The System's financial results have been favorably impacted during this period of time. In 2009, certain agricultural sectors experienced significant financial stress, which negatively impacted credit quality measures, and certain of these sectors continued to experience financial stress in 2010. Further, production agriculture remains a cyclical business that is heavily influenced by commodity prices. Among factors that could affect demand for commodities would be a change in the U.S. government's support programs for agriculture and the ethanol industry, deteriorating economic conditions internationally or an increase in the U.S. dollar's value, any of which would reduce agricultural exports. In an environment of less favorable economic conditions in agriculture, and without sufficient government support programs, the System's financial performance and credit quality measures could be negatively impacted.

Changes in the laws or regulations that govern the System could have a material impact on the System or its operations.

System institutions are created and extensively governed by federal statutes and regulated by the Farm Credit Administration. Any change in the laws or regulations that govern the System's business could have a material impact on the System and its operations. In addition, changes in the laws or regulations that govern government-sponsored enterprises or agricultural or other rural industries may significantly affect the System's business. Laws and regulations may change from time to time, and the interpretations of the relevant laws and regulations also are subject to change.

Changes in U.S. fiscal or spending policies may impair the ability of certain System borrowers to repay their loans to us, which in turn could adversely impact us.

Certain System borrowers depend on U.S. government support for the agricultural sector, including expenditures on agricultural programs. The increasing U.S. budget deficit will mean that pressure on Congress to reduce spending will continue to intensify in the near future. Adverse changes in the agricultural spending policies or budget priorities of the U.S. government in light of the large U.S. budget deficit or otherwise may affect the financial condition of some of the System's borrowers and impair their ability to repay their loans to us. The inability of these borrowers to repay their loans to us could increase our nonperforming assets, decrease the value of our loan portfolio, reduce our loan origination volume and otherwise harm our business.

An unfavorable change in U.S. tax laws or an adverse interpretation of existing tax laws could negatively impact the System's financial results.

Certain System institutions are statutorily exempt from Federal taxes. Other System institutions operate as non-exempt cooperatives. As such, they are eligible, under Subchapter T of the Internal Revenue Code, to deduct or exclude from taxable income amounts determined to be qualified patronage dividends. A change in U.S. tax law or an adverse interpretation of existing tax laws in a manner that reduces or eliminates these tax benefits or that is different from the System's application of such laws would negatively impact the System's results of operations.

A decrease in our credit ratings would likely have an adverse effect on our ability to issue Systemwide Debt Securities on reasonable terms and could trigger additional collateral requirements.

Our borrowing costs and our access to the capital markets depend in large part on our high credit rating. At December 31, 2010, the System had a AAA credit rating from Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings. Our ratings are subject to revision or withdrawal at any time by these rating agencies due to various factors, including changes in the credit rating of the U.S. given our status as a government-sponsored enterprise and the general perception of such status by investors. The reduction in our credit ratings, if it were to occur, would likely increase our borrowing costs, limit our access to the capital markets and could trigger additional collateral requirements under our derivatives contracts and other borrowing arrangements. It may also reduce our earnings and have a material adverse effect on our liquidity, our ability to conduct our normal business operations, and our financial condition and results of operations.

We face significant competition in connection with the issuance of Systemwide Debt Securities.

We compete for low-cost debt funding with the U.S. Treasury, other government-sponsored enterprises, including Fannie Mae, Freddie Mac and the Federal Home Loan Banks, and other highly rated institutions and companies. Competition for debt funding from these entities can vary with changes in economic, financial market and regulatory environments. In addition, any change in the perceptions of government-sponsored enterprise status may intensify competition with other highly rated institutions and companies in connection with the issuance of Systemwide Debt Securities. Increased competition for low-cost debt funding may result in a higher cost to finance our business, which could negatively affect our financial results. An inability to issue Systemwide Debt Securities at favorable rates in amounts sufficient to fund our business activities and meet our obligations could have an adverse effect on our liquidity, financial condition and results of operations.

We are dependent upon the willingness of investors to purchase Systemwide Debt Securities.

The willingness of domestic and foreign investors to purchase Systemwide Debt Securities can be influenced by many factors, including changes in the world economy, changes in foreign-currency exchange rates, regulatory and political factors, as well as the availability of and preferences for other investments. If investors were to reduce their purchases of Systemwide Debt Securities, our funding costs could increase. The willingness of investors to purchase Systemwide Debt Securities, and any changes to such willingness, may materially affect our liquidity, our business and results of operations.

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business, damage our reputation and cause losses.

Shortcomings or failures in our internal processes, people or systems could lead to impairment of our liquidity, financial loss, disruption of our business, liability to customers, legislative or regulatory intervention or reputational damage. For example, our

operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize confidential and other information, including nonpublic personal information and sensitive business data, processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties, which could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are not fully insured.

In addition, we are exposed to the risk that a catastrophic event, such as a terrorist event or natural disaster, could result in a significant business disruption and an inability to process transactions through normal business processes. Any measures we take to mitigate this risk may not be sufficient to respond to the full range of catastrophic events that may occur.

The Banks and Associations are subject to credit risk.

The Banks and Associations are subject to credit risk in the course of their lending, investing and hedging activities. Credit risk is the risk that arises from the inability of borrowers, debt issuers or counterparties, including bond insurers such as MBIA Inc. and Ambac Financial Group Inc., to meet their repayment obligations. The Banks and Associations have underwriting standards and lending policies to manage credit risk.

The Banks and Associations are subject to liquidity risk with respect to their investments.

The Banks and Associations are subject to liquidity risk in the course of their investing activities, particularly with respect to their investments in mortgage-backed securities and asset-backed securities. While the vast majority of these are securities issued and guaranteed by the U.S. government or other government-sponsored enterprises, over the past two years, the non-agency mortgage-backed securities and asset-backed securities markets have experienced significantly reduced liquidity and credit deterioration and investments in these securities have been subject to impairment losses. In this regard, the Banks have recorded impairment losses on certain of these investments. Moreover, if the market for the Banks' and Associations' investments continues to become less liquid, the underlying credit fundamentals continue to deteriorate and the investments further decline in value, it may make it difficult for such investments to be sold if the need arises. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Banks' and Associations' investments may differ significantly from the values that would have been used had a ready market existed for the investments. Ultimately, these factors could lead to further write-downs in the value of investments and impairment of assets that, if significant, could have adverse effects on our business, financial condition and liquidity.

The earnings of the Banks and Associations are significantly affected by the monetary policies of the Board of Governors of the Federal Reserve System.

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its policies influence the Banks' and the Associations' cost of funds for lending and investing and the return they earn on their loans and investments, both of which impact their net interest margins, and can materially affect the value of the loans and investments they hold. Federal Reserve Board policies also can affect System borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve Board policies are beyond the System's control and are difficult to predict or anticipate, especially in light of the current economic environment.

The agricultural financial services industry is highly competitive.

The System operates in a competitive marketplace in which there is competition from banks and non-bank lenders. The competitive market could result in reduced interest rate spreads and, in some cases, less favorable loan structures and terms for the System. In order to remain a viable competitor in the U.S. farm credit market, System institutions must provide effective loan products, undertake significant marketing efforts, use competitive pricing programs and maintain operating efficiency. Further, System institutions also must maintain a viable business model in order to deliver value to their borrowers/stockholders.

The Banks and Associations are subject to interest rate risk.

The Banks and Associations, in the course of their borrowing, lending and investment activities, are subject to interest rate risk. Interest rate risk is the risk that changes in interest rates may adversely affect the institution's operating results and financial condition. This risk arises from differences in the timing between the contractual maturity and the repricing characteristics of the institution's assets and the financing obtained to fund those assets. The Banks are generally responsible for developing institution-specific asset/liability management policies and strategies to manage interest rate risk and monitoring them on a regular basis.

Each Bank relies on derivative financial instruments to hedge against interest rate and liquidity risks and to lower the overall cost of funds. The financial condition of derivative and other financial instruments counterparties may adversely affect the Banks.

Each Bank uses derivative financial instruments and must determine the nature and quantity of hedging transactions. The effectiveness of the hedging transactions depends upon management's ability to determine the appropriate hedging position, taking into consideration the Bank's assets, liabilities and prevailing and anticipated market conditions. In addition, the usefulness of the Bank's hedging strategy depends on the ability to enter into hedging transactions with high quality counterparties. If a Bank is unable to manage its hedging position properly or is unable to attract high quality counterparties, the Bank may be unable to manage interest rate and liquidity risks and thus negatively impact the Bank's financial condition and results of operations.

As a result of market events over the past few years, some of the derivative and other financial instrument counterparties of the Banks have experienced various degrees of financial distress, including liquidity constraints, credit downgrades and bankruptcy. The Banks have responded with enhanced counterparty credit reviews, reduced collateral posting thresholds and increased frequency of collateral postings by counterparties. The financial condition of these counterparties may have an adverse effect on the Banks in the event that these counterparties default or otherwise fail to meet their obligations to the Banks. In addition, defaults by one or more financial institutions could lead to market-wide disruptions, which could lead to further defaults that could adversely affect the Banks. It may be difficult for the Banks to find counterparties for derivative financial instruments in such a market.

Prepayment risks in mortgage assets could affect the System's earnings.

The System funds real estate mortgage loans and purchases mortgage-backed securities that are impacted by interest rates. Changes in interest rates can significantly impact the prepayment patterns of these assets and thus affect the System's earnings. The System strives to manage or reduce this risk by "match-funding" Systemwide Debt Securities issued to the maturities of its loans and investments and entering into interest-rate derivative transactions, and through the rebalancing of cash-flow mismatches of assets and liabilities. The System's inability to "match-fund" Systemwide Debt Securities to longer-term assets may increase the repayment risks described herein for the System.

Each Bank and Association depends on the accuracy and completeness of information about its customers and counterparties.

In deciding whether to extend credit or enter into transactions with customers and counterparties, the Banks and Associations may rely on information furnished to them by or on behalf of customers and counterparties, including financial statements and other financial information. The Banks and Associations also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. If the financial or other information provided to them is incorrect, the Banks and Associations could suffer adverse credit or other consequences.

The Banks and Associations may lend only to qualified borrowers in the agricultural and rural sectors and certain related entities and are subject to geographic lending restrictions.

Unlike commercial banks and other financial institutions that lend to both the agricultural sector and other sectors of the economy, the Banks and Associations are restricted solely to making loans and providing financial services to qualified, eligible borrowers in the agricultural and rural sectors and to certain related entities. In addition, the Banks and Associations are subject to certain geographic lending restrictions. As a result, the Banks and Associations do not have as much flexibility in attempting to diversify their loan portfolios as compared to commercial banks

and other financial institutions. This concentration may limit their ability to offset adverse performance in one sector against positive performance in another sector like most diversified financial institutions.

The System's accounting policies and methods are key to how it reports its financial condition and results of operations, and they may require System institutions' managements to make estimates about matters that are inherently uncertain.

The System's accounting policies, methods and estimates are fundamental to how it records and reports its financial condition and results of operations. System institutions' managements must exercise judgment in selecting and applying many of these accounting policies, methodologies, and estimates so that they not only comply with generally accepted accounting principles and reflect best practices but also reflect managements' judgments as to the most appropriate manner in which to record and report the financial condition and results of operations. Inappropriate policies, methods and estimates, or the misapplication of accounting policies, methods or estimates could adversely affect the financial condition or results of operations of the System.

From time to time, the Financial Accounting Standards Board changes the financial accounting standards that govern the preparation of our financial statements. These changes are beyond our control, can be difficult to predict and could negatively impact how we report our financial condition and results of operations. We could be required to apply a new or revised standard retrospectively, which may result in the revision of prior period financial statements by material amounts. The implementation of new or revised accounting standards also could adversely affect a Bank's capital position and subject it to increased oversight by the Farm Credit Administration or limit its ability to participate in the issuance of Systemwide Debt Securities. See "Business — Federal Regulation and Supervision of the Farm Credit System — Bank Collateral Requirements" and "— Capital Adequacy" and Description of Systemwide Debt Securities — Agreements Among Certain System Institutions."

The recently passed federal legislation to regulate the U.S. market for financial derivatives could materially affect the System's ability to hedge interest-rate risk exposure and achieve the System's risk management objectives.

The Dodd-Frank Act was signed into law in July 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of financial institutions, many of the provisions are not applicable to System institutions. System institutions may, however, be indirectly impacted by new regulations applicable to other institutions, and directly impacted by other provisions, including the Dodd-Frank Act's new statutory and regulatory requirements for derivative transactions. As a result of these requirements, certain derivatives transactions will be required to be traded on regulated exchanges or new swap execution facilities and cleared through third-party central clearinghouses. Such cleared transactions will be subject to initial and variation margin requirements. Also, derivative transactions that are not subject to mandatory trading and clearing requirements may 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 the new requirements. Margin, capital and other requirements imposed with respect to traded and cleared swaps, and untraded and uncleared swaps, even if System institutions themselves are directly exempt from such requirements, could materially affect the System's ability to hedge its interest rate risk in a cost-effective manner or otherwise limit the System's ability to achieve its risk management objectives.

The Dodd-Frank Act will also require certain financial institutions to register as swap dealers or major swap participants, as the case may be, 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. These and other requirements of the Dodd-Frank Act have the potential of making derivative transactions more costly and less attractive as risk management tools for System institutions, and thus may impact the System's funding strategies.

OTHER BUSINESS MATTERS

Related Party Transactions

In the ordinary course of business, the Banks and Associations may enter into loan transactions with their officers and directors and non-System organizations with which such persons may be associated. These loans are subject to special approval requirements contained in Farm Credit Administration regulations and are, in the view of the System institutions' management, made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. All related party loans were made in accordance with established policies and the same terms as those prevailing at the time for comparable transactions, except for one loan for $4 million to a company affiliated with a System institution director. The interest rate on this loan was marginally lower than the rate on similar loans to unrelated borrowers.

Total loans outstanding to such persons were $2.2 billion at December 31, 2010 and $2.0 billion at December 31, 2009. During 2010 and 2009, $4.8 billion and $4.3 billion of new loans were made to such persons and repayments totaled $4.6 billion and $4.2 billion. In the opinions of Bank and Association managements, all such loans outstanding at December 31, 2010 did not involve more than a normal risk of collectibility, except for loans to four Association directors totaling $64.9 million.

Legal Proceedings

At December 31, 2010, various lawsuits were pending or threatened against System institutions. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending legal actions will not have a material adverse impact on the System's combined results of operations or financial position.

Changes in and Disagreements with Auditors of the Combined Financial Statements of the Farm Credit System

During the fiscal year ended December 31, 2010 and through the date of this annual information statement, there have been no changes in or disagreements with the independent auditors of the combined financial statements of the System.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis provides a narrative on the System's financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

- Basis of Presentation
- Forward-Looking Information
- Critical Accounting Policies
- 2010 Overview
- Agricultural Outlook
- System Organizational and Structural Matters
- Results of Operations
- Fourth Quarter 2010 Results of Operations
- Risk Management
- Regulatory Matters
- Recently Adopted or Issued Accounting Pronouncements

Basis of Presentation

The System is a federally chartered network of interdependent, borrower-owned lending institutions (Banks and Associations) and affiliated service organizations. Through our four Farm Credit Banks, one Agricultural Credit Bank and 84 Associations (as of January 1, 2011), we provide credit and related services nationwide to farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses. We also make loans to finance the processing and marketing activities of these borrowers and to foreign purchasers of American agricultural products. In addition, we make loans to rural homeowners, rural utilities and other eligible borrowers.

The combined financial statements and related financial information contained in this annual information statement present the combined assets, liabilities, capital, income and expenses of the Banks, the Associations, the Federal Farm Credit Banks Funding Corporation and the Farm Credit Insurance Fund and reflect the investments in and allocated earnings of the service organizations owned by the Banks and/or Associations. All significant intra-System transactions and balances have been eliminated in combination. (See Note 1 to the accompanying combined financial statements for additional information on organization, operations and principles of combination and the Supplemental Combining Information on pages F-58 through F-65.) This annual information statement has been prepared under the oversight of the System Audit Committee.

Our financial statements are presented on a combined basis due to the financial and operational interdependence of the System entities as discussed in the "Business" section of this annual information statement. While this annual information statement reports on the combined financial position and results of operations of the Banks, Associations and other System entities specified above, only the Banks are jointly and severally liable for the payments on Systemwide Debt Securities. Each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its operations. (See Notes 13 and 22 to the accompanying combined financial statements for information about the capital of the Banks and the Supplemental Combining Information on pages F-58 through F-60 for information related to the financial condition of the combined Banks.) Because the Associations are not directly liable for the payment of principal and interest on Systemwide Debt Securities, their capital may not be available to support those payments. Under the Farm Credit Act, the timely payment of principal and interest on Systemwide Debt Securities is insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund. (See Note 7 to the accompanying combined financial statements.)

Forward-Looking Information

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

our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial markets and economic conditions and developments in the United States and abroad,
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors,
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income,
- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving other government-sponsored enterprises and other financial institutions, and
- actions taken by the Federal Reserve System in implementing monetary policy.

Critical Accounting Policies

The System's financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the reported amounts of certain assets or liabilities. We consider these policies as critical because managements of System institutions have to make judgments about matters that are inherently uncertain. For a complete discussion of the System's significant accounting policies, see Note 2 to the accompanying combined financial statements. The following is a summary of certain of our most significant critical accounting policies.

- Allowance for loan losses — The allowance for loan losses is each Bank and Association management's best estimate of the amount of probable losses existing and inherent in its loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. Each Bank and Association determines its allowance for loan losses based on periodic evaluation of its loan portfolio, which generally considers recent historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, collateral value, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

  Changes in the factors considered by the management of each Bank and Association in the evaluation of losses in its loan portfolio could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- Valuation methodologies — Managements of the Banks and Associations use market prices when estimating fair values for certain assets and liabilities for which an observable liquid market exists. However, they apply various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Examples of these items include impaired loans and investments, pension and other postretirement benefit obligations, and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the System's results of operations.

- Pensions — The Banks and substantially all Associations sponsor defined benefit

retirement plans, although most plans are closed to new participants. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Banks and Associations sponsor defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense is determined by using Hewitt Associates LLC actuarial valuations based on certain assumptions, including expected long-term rates of return on plan assets and discount rates. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. We determined the 2010 and 2009 discount rates by reference to Hewitt's Top Quartile Yield Curve, actuarial analyses and industry norms, which represent the methodology used in periods prior to the financial conditions experienced in 2008. In 2008, in light of the volatile financial environment, the Banks and Associations evaluated the assumed discount rate that would be derived using the methodology used in prior periods and determined that the rates would not be reflective of high-quality fixed income investments given the financial environment. For 2008, we refined our methodology for selecting the discount rate by reference to Hewitt's Above-Median Yield Curve so as to better represent the Banks' and Associations' pension/other postretirement benefit liabilities at that time.

2010 Overview

General

The System's loan portfolio grew 6.4% during 2010, as compared with 2.1% in 2009, 13.0% in 2008 and 15.8% in 2007. The increase in loan volume for 2010 was primarily due to growth in agribusiness loans in the latter half of the year primarily to finance grain inventories driven by a sharp increase in the prices for certain agricultural commodities and to an increase in real estate mortgage loans, particularly in regions where cash grains (which includes corn, wheat and soybeans) are grown. Average loans increased $4.750 billion or 2.9% during 2010 and $6.701 billion or 4.3% during 2009. As further discussed in the "Agricultural Outlook" section below, the global economic environment has been favorably impacting certain sectors of U.S. agriculture; however, recent increases in commodity and other input prices continue to challenge certain System borrowers, particularly those borrowers in the dairy and livestock sectors. In addition, other System borrowers have been adversely impacted by the overall downturn in the general U.S. economy, including borrowers in the communications and forestry industries.

The System's combined net income was $3.495 billion for 2010, $2.850 billion for 2009 and $2.916 billion for 2008. The increase in 2010 net income primarily resulted from increases in net interest income of $498 million and noninterest income of $88 million and from a decrease in the provision for loan losses of $258 million, partially offset by increases in noninterest expense of $176 million and provision for income taxes of $23 million. The increase in net interest income in 2010 and 2009 was primarily attributable to the increase in the net interest spread, while loan growth was the principal reason for the System's increased net interest income and profitability in the few years prior to 2009. Net interest income in excess of operating expenses increased $337 million to $3.901 billion for 2010, as compared with $3.564 billion for 2009. As more fully discussed in the "Net Interest Income" section below, the System has benefitted from the low interest rate environment during the past few years, which has enabled the Banks to call debt and issue new debt at lower interest rates, outpacing the rate at which their assets repriced. As interest rates rise, the positive impact on net interest income that the System has experienced over the last several years from calling debt will likely diminish.

The System's total amount of nonperforming assets was $3.840 billion at December 31, 2010, as compared with $3.776 billion at December 31, 2009, representing 2.18% and 2.29% of total loans and other property owned outstanding for the corresponding periods. During 2010, the System's capital to assets ratio increased to 14.5% at December 31, 2010, as compared with 13.9% at December 31, 2009, primarily as a result of System institutions retaining earnings while managing overall loan growth.

Financial Regulatory Reform

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

statutory provisions of the Dodd-Frank Act are not applicable to the System. The Dodd-Frank Act 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 considered systemically 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 non-bank financial companies 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 so-called 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 or otherwise, 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; and thus 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 the case may be, 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," which sets forth recommendations to Congress related to the future of the housing government-sponsored enterprises, including Fannie Mae and Freddie Mac. While this report did not specifically include or relate to the System, a potential risk exists that the System, as a government-sponsored enterprise, 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 to which the Dodd-Frank Act or the forthcoming implementing rules and regulations will have on the System. However, it is possible they could affect our funding strategies and increase our funding costs.

Funding

The System continues to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. During 2010, the financial markets continued to improve and investor demand for Systemwide Debt Securities remained favorable across all products. Given the prevailing low interest rate environment, the Banks continue to refinance callable bonds when possible in order to lower their cost of funds.

As discussed above and in the section entitled "Risk Factors," the Commodity Futures Trading Commission will be promulgating rules that will ultimately determine how the Dodd-Frank Act's new requirements relating to derivative transactions could apply to System institutions. As end-users of derivatives, the Banks may be negatively impacted by these rules as our ability to convert fixed rate debt to floating rate debt through derivatives may become too costly. As a result, we may need to rely more heavily on certain conventional floating-rate funding structures.

Agricultural Outlook

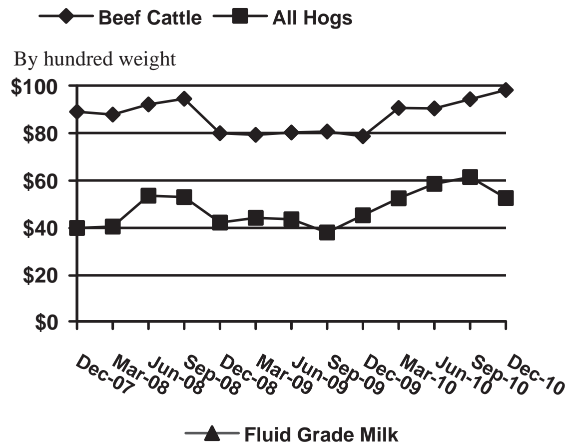
We utilized the following United States Department of Agriculture (USDA) analysis to provide a general understanding of the U.S. agricultural economic outlook; however, this outlook does not take into account all aspects of our business. References to USDA information in this section refer to the U.S. agricultural market data and not System data.

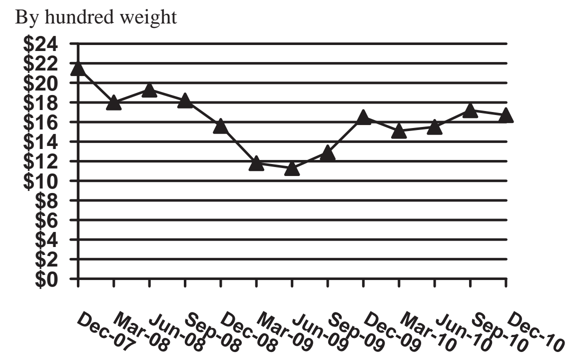
The USDA forecast (February 14, 2011) estimates farmers' net cash income (a measure of the cash income after payment of business expenses) for 2010 at $91.3 billion, up $22.2 billion from 2009 and up $19.5 billion from its 10-year average of $71.8 billion. The improvement in net cash income in 2010 was primarily due to an increase in livestock receipts of $21.7 billion.

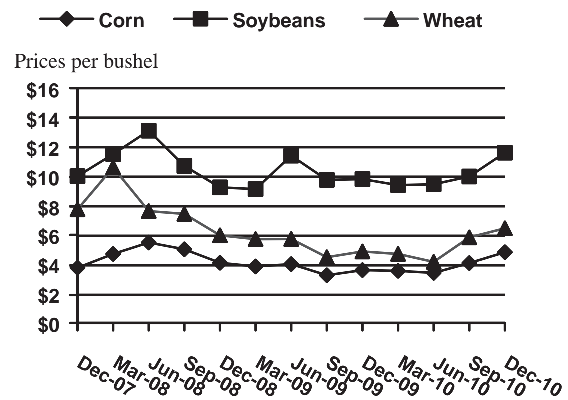
The USDA's February 2011 outlook for the farm economy, as a whole, forecasts 2011 farmers' net cash income to increase to $98.6 billion, a $7.3 billion increase from 2010, and $26.8 billion above the 10-year average. Contributing to this forecasted increase in farmers' net cash income for 2011 are increases in crop receipts of $24.0 billion, livestock receipts of $4.3 billion, and farm-related income of $300 million, partially offset by an increase in cash expenses of $19.7 billion and a decline in direct government payments of $1.6 billion.

In 2010, feed prices declined through the first half of the year and export demand for livestock was strong resulting in the strong recovery in livestock receipts. The forecast for crop receipts for 2010 was up from 2009 but not to the same extent as livestock. Looking ahead to 2011, crop receipts are expected to rise across a number of crop categories, particularly corn, soybeans and cotton. Continued demand for ethanol, strong exports and tight supplies are expected to contribute to significant commodity price increases. These increases, as well as uncertainty regarding future commodity price increases, could significantly increase input costs and place further pressure on certain dairy and livestock producers.

The following charts set forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle, hogs and milk on certain dates during the period from December 31, 2007 to December 31, 2010:







The USDA's income outlook varies depending on farm size and commodity specialties. The USDA classifies all farms into three primary categories: commercial farms, intermediate farms and rural residential farms. Commercial farms, which represent about 10% of U.S. farms by number but represent over 80% of total U.S. farm production, are expected to have a gain of almost 29% in average net cash income in 2010. Intermediate farms (where the primary occupation is farming and gross sales are between $10,000 and

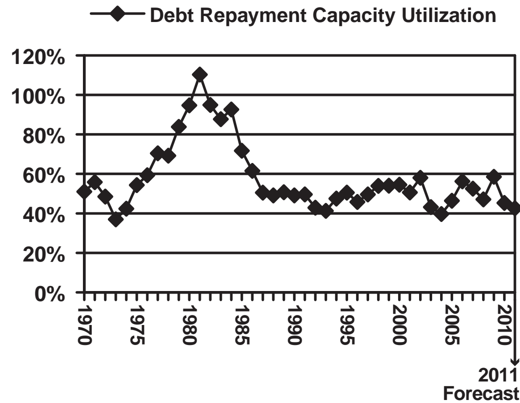
$250,000) represent 30% of U.S. farms by number and account for 18% of total production. These intermediate farms are expected to have the largest increase in net cash income in 2010 of 78%. About 60% of U.S. farms are classified as rural residential farms where the primary occupation is not farming and the farms produce less than $10,000 in products and only account for 2% of total production.

In addition to farmers' net cash income, off-farm income is an important source of funds for the repayment of farm debt obligations and is less subject to cycles in agriculture. The USDA measures farm household income, which is defined as earnings from farming activities plus off-farm income. Nearly 100% of farm household income for operators of rural residential farms and more than 90% of farm household income for intermediate farms is generated from off-farm sources. Further, USDA data suggests that approximately 25% of farm household income for commercial farms is generated from off-farm income.

According to the USDA February 2011 forecast, farm sector asset values are forecasted to increase $64 billion to $2.121 trillion for 2010 (a 3.1% increase), reflecting increased returns on farm investments. The values of land, machinery/equipment, crop and livestock and poultry inventories are expected to rise modestly in 2010. Farm business equity (assets minus debt) is expected to rise from $1.812 trillion in 2009 to $1.881 trillion in 2010 (a 3.8% increase), largely due to an expected 3.1% increase in the value of farm assets and a 2.0% decline in farm business debt.

One measure of the financial health of the agricultural sector used by the USDA is farmers' utilization of their capacity to repay debt (actual debt as a percentage of maximum debt that can be supported by farmers' current income). Higher capacity utilization rates indicate tighter cash flow positions and, consequently, higher exposure to financial risk, while lower rates indicate healthier cash flow and financial positions. However, these estimates do not take into account off-farm income sources. Since 1970, debt repayment capacity utilization has ranged from a low of 37% in 1973 to a high of 110% in 1981, and has remained relatively stable since 1987, averaging about 50%. The forecast for 2011 predicts farmers' utilization to decline from 45% in 2010 to around 43% for 2011.

The following chart sets forth the debt repayment capacity utilization of U.S. farmers since 1970:



As estimated by the USDA in February 2011, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) grew to 40.1% at December 31, 2009 (the latest available data), as compared with 39.0% at December 31, 2008. Overall, U.S. farm business debt is forecasted to rise slightly in 2011 to $241.6 billion from $240.3 billion in 2010. Rising production costs in 2011 will drive certain crop and livestock producers to increase their debt loads as energy and feed costs rise.

Agriculture, in general, has experienced a sustained period of favorable economic conditions due to stronger commodity prices, higher land values, and, to a lesser extent, government support programs. To date, the System's financial results have remained favorable as a result of these conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. Conditions in the general and agricultural economies remain volatile given the state of the global economy. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, the System's financial performance and credit quality measures would likely be negatively impacted. Any negative impact from these less favorable conditions should be mitigated by geographic and commodity diversification across the System and the influence of off-farm income sources supporting agricultural-related debt. Agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy. However, due to the geographic territories served by Banks and Associations, most institutions have higher geographic, borrower and commodity concentrations than does the System as a whole.

System Organizational and Structural Matters

The following table summarizes the structural changes of the System over the past five years:

	Banks	Associations	Total
Entities at January 1, 2006	5	96	101
Net changes through January 1, 2010	–	(8)	(8)
Entities at January 1, 2010	5	88	93
Net changes through January 1, 2011	–	(4)	(4)
Entities at January 1, 2011	5	84	89

Over the past several years, the number of Associations has declined through mergers.

On December 16, 2010, the boards of directors of U.S. AgBank and CoBank approved an agreement setting forth the key terms and conditions of a proposed merger transaction between them. The proposed merger transaction is subject to several conditions, including the satisfactory completion of due diligence by the parties, the execution and approval of a merger agreement by their boards of directors, and the approval of the merger transaction by their stockholders and the Farm Credit Administration.

Results of Operations

Earnings Analysis

Changes in the key components impacting the System's results of operations over the past three years are summarized below:

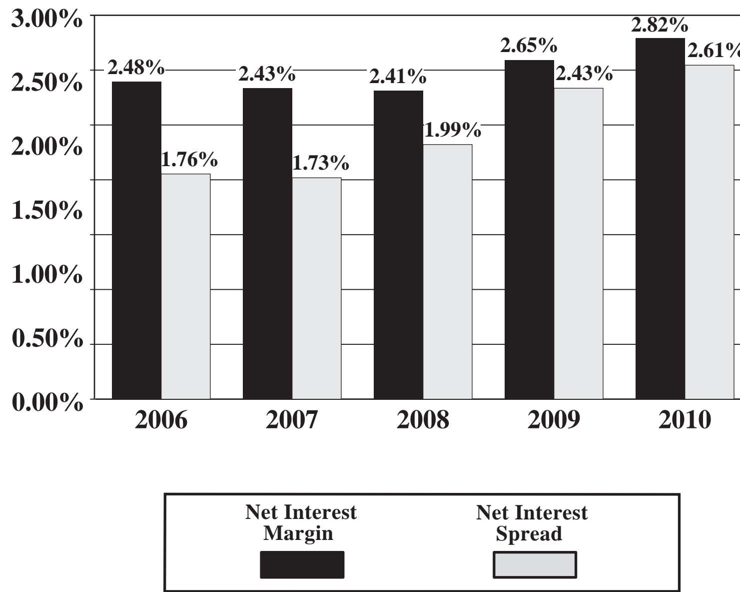
	2010 vs. 2009	2009 vs. 2008
	(in millions)	
Increase (decrease) in net income due to:		
Interest income	$(263)	$(1,709)
Interest expense	761	2,399
Net interest income	498	690
Provision for loan losses	258	(517)
Noninterest income	88	(55)
Noninterest expense	(176)	(142)
Provision for income taxes	(23)	(42)
Net change in net income	$ 645	$ (66)

Net Interest Income

Net interest income was $5.890 billion in 2010, $5.392 billion in 2009 and $4.702 billion in 2008. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the System and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

	2010 vs. 2009 Increase (decrease) due to			2009 vs. 2008 Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(in millions)					
Interest income						
Loans	$232	$(291)	$ (59)	$385	$(1,558)	$(1,173)
Investments	10	(214)	(204)	74	(610)	(536)
Total interest income	242	(505)	(263)	459	(2,168)	(1,709)
Interest expense	5	(766)	(761)	316	(2,715)	(2,399)
Changes in net interest income	$237	$ 261	$ 498	$143	$ 547	$ 690

The following chart illustrates the System's net interest margin and net interest spread trends for the past five years:



The following table presents interest rate spreads, components of interest rate spreads, the details of the changes in interest rates earned and paid, and the impact of those changes on interest rate spreads for the past three years:

	2010			2009			2008		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
				($ in millions)					
Assets									
Real estate mortgage loans	$ 74,093	$4,171	5.63%	$ 72,377	$4,206	5.81%	$ 67,569	$ 4,317	6.39%
Production and intermediate-term loans	38,154	1,702	4.46	36,768	1,691	4.60	34,120	1,985	5.82
Agribusiness loans	24,403	987	4.04	24,555	983	4.00	31,595	1,714	5.42
Rural home loans	5,854	292	4.99	4,756	253	5.32	4,349	273	6.28
Energy, water and waste disposal loans	11,029	493	4.47	10,076	491	4.87	8,438	469	5.56
Communication loans	3,721	145	3.90	4,238	156	3.68	4,032	227	5.63
International loans	4,124	46	1.12	4,208	96	2.28	2,716	106	3.90
Lease receivables	2,028	113	5.57	2,028	122	6.02	1,794	114	6.35
Loans to other financial institutions	570	11	1.93	578	13	2.25	524	18	3.44
Nonaccrual loans	3,451	76	2.20	3,093	84	2.72	839	45	5.36
Total loans	167,427	8,036	4.80	162,677	8,095	4.98	155,976	9,268	5.94
Federal funds sold, investments and other	41,208	814	1.98	40,778	1,018	2.50	38,856	1,554	4.00
Total earning assets	208,635	8,850	4.24	203,455	9,113	4.48	194,832	10,822	5.55
Allowance for loan losses	(1,401)			(1,116)			(819)		
Other noninterest-earning assets	10,961			12,605			8,546		
Total assets	$218,195			$214,944			$202,559		
Liabilities and Capital									
Systemwide bonds and medium-term notes	$165,500	$2,799	1.69%	$163,704	$3,488	2.13%	$152,592	$ 5,598	3.67%
Systemwide discount notes	12,840	36	0.28	14,526	130	0.89	16,419	421	2.56
Subordinated debt	1,629	102	6.26	1,283	73	5.69	868	48	5.53
Other interest-bearing liabilities	1,506	23	1.53	1,683	30	1.78	1,983	53	2.67
Total interest-bearing liabilities	181,475	2,960	1.63	181,196	3,721	2.05	171,862	6,120	3.56
Noninterest-bearing liabilities	4,655			5,011			3,256		
Capital	32,065			28,737			27,441		
Total liabilities and capital	$218,195			$214,944			$202,559		
Net interest spread(1)			2.61			2.43			1.99
Impact of noninterest-bearing sources			0.21			0.22			0.42
Net interest income and margin(2)		$5,890	2.82%		$5,392	2.65%		$ 4,702	2.41%

(1) Net interest spread is the difference between the rate earned on total earning assets and the rate paid on total interest-bearing liabilities.

(2) Net interest margin is net interest income divided by average earning assets.

Earning assets, which are primarily financed through the issuance of Systemwide Debt Securities, consisted of loans (accrual and nonaccrual), Federal funds sold and investments. In addition to these interest-bearing funds, earning assets also were funded by capital. Variations in average volume and the spreads earned on interest-bearing funds and capital determine changes in net interest income.

As illustrated in the preceding tables, the increase in net interest income in 2010, as compared to 2009 resulted from an increase in the net interest spread and, to a lesser extent, a higher level of average earning assets. Average earning assets grew $5.180 billion or 2.5% to $208.635 billion for 2010, as compared with the same period of the prior year. The net interest margin increased 17 basis points to 2.82% for 2010, as

compared with 2.65% for 2009. Positively impacting the net interest margin was an increase in the net interest spread of 18 basis points to 2.61% for 2010, as compared with net interest spread of 2.43% for 2009. The increase in the net interest spread was primarily attributable to the Banks' ability to more quickly reprice their outstanding debt relative to their assets in this lower interest rate environment and to adjustments in loan pricing to better reflect credit risk and market conditions. During 2010, the Banks called debt totaling $65.6 billion and were able to lower their cost of funds relative to the interest rate earned on their assets, which did not change as quickly. Over time, as interest rates increase and assets prepay or reprice in a manner more consistent with historical experience, the positive impact on the net interest spread that the System has experienced over the last several years from calling Systemwide Debt Securities will likely diminish.

Interest income recognized on cash-basis nonaccrual loans was $76 million for 2010, $84 million for 2009 and $45 million for 2008. Interest income is recognized on cash-basis nonaccrual loans only as interest payments are received and certain other conditions are met. Nonaccrual loans are returned to accrual status after a period of sustained payment performance provided they are current as to principal and interest, any previously charged off amounts have been collected, and the collectibility of the remaining amounts of principal and interest is no longer in doubt.

Net interest income increased in 2009, as compared to 2008. This increase resulted from an increase in net interest spread and, to a lesser extent, a higher level of average earning assets. Average earning assets grew $8.623 billion or 4.4% to $203.455 billion for 2009, as compared with the same period of the prior year. The net interest margin increased 24 basis points to 2.65% for 2009, as compared with 2.41% for 2008. Positively impacting the net interest margin was an increase in the net interest spread of 44 basis points to 2.43% for 2009, as compared with net interest spread of 1.99% for 2008. The increase in the net interest spread was primarily attributable to the Banks' ability to more quickly reprice their outstanding debt in the lower interest rate environment and to adjustments in loan pricing to better reflect credit risk and market conditions in a more difficult agricultural economic environment. During 2009, the Banks called debt totaling $63.6 billion and were able to lower their cost of funds relative to the interest rate earned on their assets, which did not change as quickly.

Provision for Loan Losses

Each Bank and Association makes its own determination whether an increase in its allowance for loan losses through a provision for loan losses or a decrease in its allowance for loan losses through a loan loss reversal is warranted based on its assessment of the credit risk in its loan portfolio.

The System recognized a provision for loan losses of $667 million in 2010, $925 million in 2009 and $408 million in 2008. Even though the agricultural economy has generally improved over the second half of 2010, credit stress in certain agricultural sectors continued to adversely impact certain System borrowers. The provisions for loan losses for both 2010 and 2009 were primarily due to credit deterioration in those agricultural sectors that continue to be impacted by volatility in commodity and other input prices, such as dairy and livestock, as well as those borrowers impacted by the overall downturn in the general U.S. economy, such as forestry. In addition, the provision for loan losses recognized in 2010 reflected the challenges facing a limited number of rural energy customers. However, the overall credit quality of the energy portfolio remained strong. The provision for loan losses recognized in 2009 also reflected credit stress in the ethanol sector.

The 2008 provision for loan losses of $408 million resulted from stress in industries dependent on corn as an input cost. In 2008, corn prices increased sharply and, although prices declined in 2009, the increased prices had a continuing negative impact on borrowers, particularly those borrowers who purchased corn at elevated prices in 2008 for future production. In addition, credit stress in 2008 also reflected the overall downturn in the general U.S. economy and the housing market, including the forestry industry and, to a lesser extent, the communications industry.

Noninterest Income

Noninterest income for each of the three years in the period ended December 31, 2010 is summarized in the following table:

	For the Year Ended December 31,		
	2010	2009	2008
	(in millions)		
Loan-related fee income	$ 238	$ 213	$148
Fees for financially related services	220	229	265
Income earned on Insurance Fund assets	66	57	76
Mineral income	63	30	46
Operating lease income	43	41	44
Gains on sales of investments and other assets, net	11	18	11
Gains (losses) on other transactions	2	9	(11)
Total other-than-temporary impairment losses	(123)	(361)	(82)
Portion of loss recognized in other comprehensive income	33	226	
Net other-than-temporary impairment losses included in earnings	(90)	(135)	(82)
Losses on extinguishment of debt	(72)	(58)	(57)
Gains (losses) on derivatives not designated as hedges	3	(5)	12
Losses on discontinuance of fair value and cash flow hedges	(1)	(2)	(3)
Other noninterest income	52	50	53
Total noninterest income	$ 535	$ 447	$502

Noninterest income increased $88 million or 19.7% in 2010 to $535 million, as compared with 2009. The increase was primarily due to increases in loan-related fee income of $25 million as higher fees are being earned on certain agribusiness and rural infrastructure loans, mineral income of $33 million due to increases in royalty and lease bonus income, income earned on Insurance Fund assets of $9 million and to a $45 million decrease in net other-than-temporary impairment losses included in earnings. The increase in noninterest income was partially offset by an increase in losses on extinguishment of debt of $14 million. In many instances, the proceeds from loan prepayments were used to extinguish higher cost debt.

The net other-than-temporary impairment losses on investments of $90 million resulted from credit losses on certain securities that have been negatively impacted by underlying credit issues with respect to housing-related mortgages that support these securities (See "Federal Funds and Available-for-Sale Securities" beginning on page 67 for further discussion regarding the impairment of investments). The 2010 losses reflect the credit-related portion of the impairment in income, while the non-credit component of the impairment totaling $33 million is reflected in other comprehensive loss.

Noninterest income decreased $55 million or 11.0% in 2009 to $447 million, as compared with 2008. The decrease was primarily due to an increase in net other-than-temporary impairment losses included in earnings of $53 million to $135 million and to decreases in fees for financially related services of $36 million, income earned on Insurance Fund assets of $19 million and mineral income of $16 million. The losses on impairment of investments resulted from credit losses on certain securities that have been negatively impacted by underlying credit issues with respect to housing-related mortgages that support these securities. Due to a change in accounting rules, the 2009 losses reflect the credit-related portion of the impairment in income, while the non-credit component of the impairment totaling $226 million is reflected in other comprehensive loss. Fees for financially related services primarily consist of multi-peril crop insurance commissions. The decrease in commissions reflected the significant decline in commodity prices in 2009, as compared with 2008. The decrease in noninterest income was partially offset by an increase in loan-related fee income of $65 million primarily due to greater fees on unfunded lines of credit and on loan prepayment fees.

Noninterest Expense

Noninterest expense for each of the three years in the period ended December 31, 2010 is summarized below:

	For the Year Ended December 31,		
	2010	2009	2008
	(in millions)		
Salaries and employee benefits	$1,278	$1,180	$1,068
Occupancy and equipment expense	161	157	151
Purchased services	133	120	117
Other operating expense	417	371	379
Total operating expense	1,989	1,828	1,715
Losses on other property owned	48	39	5
Other noninterest expense	8	2	7
Total noninterest expense	$2,045	$1,869	$1,727

Noninterest expense increased $176 million to $2.045 billion for 2010, as compared with 2009, primarily due to increases in salaries and employee benefits and increases in purchased services and other operating expense. Salary expense increased $78 million or 9.1% to $932 million primarily due to annual merit and performance-based incentive compensation increases, and to a lesser extent, higher staffing levels at certain System institutions. Employee benefits increased $20 million or 6.1% to $346 million as various employee benefits, such as payroll taxes and health insurance costs, increased in line with increased salaries and staffing levels. The System employed 12,058 full-time equivalents at December 31, 2010, as compared with 11,915 full-time equivalents at December 31, 2009, a 1.2% increase. Other operating expense increased $46 million due, in part, to one Bank's settlement of a business dispute.

Noninterest expense increased $142 million to $1.869 billion for 2009, primarily due to increases in salaries and employee benefits and increased losses on other property owned. Salary expense increased $32 million or 3.9% to $854 million, while employee benefits increased $80 million or 32.5% to $326 million in 2009, as compared with 2008. The increase in salary expense was primarily due to annual merit and performance-based incentive compensation increases and, to a lesser extent, higher staffing levels at certain System institutions. The System employed 11,915 full-time equivalents at December 31, 2009, as compared with 11,814 full-time equivalents at December 31, 2008, a 0.9% increase. Employee benefit costs increased in 2009 primarily as a result of increased pension expense reflecting the decline in the fair value of pension assets during 2008 resulting in increased amortization of past actuarial plan losses and, to a lesser extent, a lower expected return on plan assets.

Operating expense (salaries and employee benefits, occupancy and equipment expense, purchased services and other operating expense) statistics for each of the three years in the period ended December 31, 2010 are set forth below:

	2010	2009	2008
	($ in millions)		
Excess of net interest income over operating expense	$3,901	$3,564	$2,987
Operating expense as a percentage of net interest income	33.8%	33.9%	36.5%
Operating expense as a percentage of net interest income and noninterest income	31.0	31.3	33.0
Operating expense as a percentage of average loans	1.19	1.12	1.10
Operating expense as a percentage of average earning assets	0.95	0.90	0.88

The growth in net interest income in excess of operating expense during 2010 of 9.5% resulted from increased net interest margin that exceeded the growth in operating expense of 8.8%. The increase in net interest income in excess of operating expense during 2009 of 19.3% resulted from increased net interest margin that exceeded the growth in operating expense of 6.6%.

Provision for Income Taxes

As discussed in Note 2 to the accompanying combined financial statements, the System is comprised of both taxable and non-taxable entities. Taxable entities are eligible to operate as cooperatives for tax purposes and thus may elect to deduct from taxable income certain amounts allocated to borrowers as patronage refunds in the form of cash, stock or allocated surplus.

The System recorded provisions for income taxes of $218 million in 2010, $195 million in 2009 and $153 million in 2008. The effective tax rate decreased to 5.9% for 2010 from 6.4% for 2009. The decrease in the effective tax rate was primarily due to increased patronage distributions at certain taxable System institutions.

Fourth Quarter 2010 Results of Operations

Combined net income was $862 million for the fourth quarter of 2010, as compared with $832 million for the fourth quarter of 2009. This increase primarily resulted from increases in net interest income and noninterest income, partially offset by increases in noninterest expense and the provision for income taxes.

Net interest income increased $117 million to $1.567 billion in the fourth quarter of 2010, as

compared with $1.450 billion for the prior year period. The increase in net interest income resulted from an increase in the net interest spread and, to a lesser extent, a higher level of average earning assets. Average earning assets grew to $213.900 billion for the fourth quarter of 2010, as compared with $204.017 billion for the fourth quarter of 2009.

The net interest margin was 2.93% for the fourth quarter of 2010, as compared with 2.84% for the fourth quarter of 2009. Positively impacting the net interest margin was an increase in the net interest spread to 2.75% for the quarter ended December 31, 2010, as compared with 2.63% for the same period of 2009. The increase in the net interest spread was primarily attributable to the Banks' ability to more quickly reprice outstanding debt relative to their assets in the lower interest rate environment and to adjustments in loan pricing to better reflect credit risk and market conditions.

The System recognized provisions for loan losses of $193 million in the fourth quarter of 2010, as compared with $192 million for the fourth quarter of 2009. The provision for loan losses recorded for the fourth quarters of 2010 and 2009 reflected the continued financial stress in certain sectors of the agricultural economy. These sectors include those impacted by the continued volatility in commodity prices, such as dairy and livestock, as well as those sectors impacted by the overall downturn in the general U.S. economy, such as forestry.

Noninterest income increased $33 million to $181 million for the fourth quarter of 2010, as compared with the same period in 2009. This increase was due primarily to increases in loan-related fee income and income earned on Insurance Fund investments and to a reduction in the losses recognized on other-than-temporarily impaired investments, offset, in part, by decreases in fees for financially related services and other noninterest income. Losses on other-than-temporarily impaired investments of $12 million were recognized in income during the fourth quarter of 2010, as compared with a $32 million impairment loss for the same period of the prior year. The fourth quarter 2010 and 2009 non-credit-related components were $25 million and $92 million.

Noninterest expense increased $107 million to $626 million for the fourth quarter of 2010, as compared with the fourth quarter of 2009. This increase was primarily due to increases in salaries and employee benefits of $63 million, losses on other property owned of $19 million and increases in purchased services and other operating expense of $18 million. The increase in salary expense was primarily due to annual merit and performance-based incentive compensation increases and, to a lesser extent, higher staffing levels at certain System institutions. The increase in other operating expense was primarily due to increased purchased services and other general expenses.

The provision for income taxes was $67 million for the fourth quarter of 2010 and $55 million for the fourth quarter of 2009. The effective tax rate increased from 6.2% for the fourth quarter of 2009 to 7.2% for the fourth quarter of 2010. The increase in the effective tax rate was primarily attributable to increased taxable income during the fourth quarter of 2010.

Risk Management

Overview

The System is in the business of making agricultural and other loans that requires us to take certain risks in exchange for compensation for the risks undertaken. Management of risks inherent in our business is essential for our current and long-term financial performance. Our goal is to mitigate risk, where appropriate, and to properly and effectively identify, measure, price, monitor and report risks in our business activities.

The major types of risk to which we have exposure are:

- structural risk — risk inherent in our business and related to our structure (an interdependent network of lending institutions),
- credit risk — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed,
- interest rate risk — risk that changes in interest rates may adversely affect our operating results and financial condition,
- liquidity risk — risk arising from our inability to meet obligations when they come due without incurring unacceptable losses, including our ability to access the debt market,
- operational risk — risk resulting from inadequate or failed internal processes or systems, errors by employees or external events, and
- political risk — risk of loss of support for the System and agriculture by the federal and state governments.

Structural Risk Management

Structural risk results from the fact that the System is comprised of Banks and Associations that are cooperatively owned, directly or indirectly, by their borrowers. While System institutions are financially and operationally interdependent, they are not commonly owned. This structure at times requires action by consensus or contractual agreement. Further, there is structural risk in that only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities. Although capital at the Association level reduces a Bank's credit exposure with respect to its wholesale loans to its affiliated Associations, this capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

In order to mitigate this risk, we utilize two integrated agreements — the Amended and Restated Contractual Interbank Performance Agreement, or CIPA, and the Amended and Restated Market Access Agreement, or MAA. Under provisions of the CIPA, a score (CIPA score) is calculated to measure the financial condition and performance of each District (a Bank and its affiliated Associations) using various ratios that take into account the District's and Bank's capital, asset quality, earnings, interest-rate risk and liquidity. The CIPA score is then compared against the agreed-upon standard of financial condition and performance that each District must achieve and maintain. The measurement standard established under the CIPA is intended to provide an early-warning mechanism to assist in monitoring the financial condition of each District. The CIPA establishes economic incentives whereby monetary penalties are applied if the performance standard is not met. The performance standard under the CIPA is based on the average CIPA score over a four-quarter period. During 2010, no Bank was subject to any monetary penalties under the CIPA.

The MAA is designed to provide for the timely identification and resolution of individual Bank financial issues and establishes performance criteria and procedures for the Banks that provide operational oversight and control over a Bank's access to System funding. The performance criteria set forth in the MAA are as follows:

- the defined CIPA scores,
- the net collateral ratio of a Bank, and
- the permanent capital ratio of a Bank.

If a Bank fails to meet the above performance criteria, it will be placed into one of three categories. Each category gives the other System Banks progressively more control over a Bank that has declining financial performance under the MAA performance criteria. A "Category I" Bank is subject to additional monitoring and reporting requirements; a "Category II" Bank's ability to participate in issuances of Systemwide Debt Securities may be limited to refinancing maturing debt obligations; and a "Category III" Bank may not be permitted to participate in issuances of Systemwide Debt Securities. No limitations on the participation in the issuances of Systemwide Debt Securities are associated with being in "Category I." A Bank exits these categories by returning to compliance with the agreed-upon performance criteria.

The Bank net collateral ratio is net collateral (primarily earning assets) divided by total liabilities less subordinated debt, subject to certain limits, and the Bank permanent capital ratio is primarily the Bank's common stock, preferred stock and subordinated debt, subject to certain limits, and surplus divided by risk-adjusted assets.

The criteria for the net collateral ratio and the permanent capital ratio are as follows:

	Net Collateral Ratio	Permanent Capital Ratio
Category I	<104%	<8.0%
Category II	<103%	<7.0%
Category III	<102%	<5.0%

(See Note 22 for each Bank's net collateral and permanent capital ratios.)

During the three years ended December 31, 2010, all Banks met the agreed-upon standards for the net collateral and permanent capital ratios required by the MAA. As of December 31, 2010, all Banks met the agreed-upon standard of financial condition and performance required by the CIPA. During the three years ended December 31, 2010, the Banks met the defined CIPA score required by the MAA, except for the Farm Credit Bank of Texas, which fell below a defined CIPA score for the quarter ended September 30, 2009 and was placed into "Category I." For the quarter ended December 31, 2009, the Farm Credit Bank of Texas met the defined CIPA score required by the MAA and exited from "Category I."

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolios and derivative counterparty credit exposures. We manage credit risk associated with our retail lending activities through an analysis of the credit risk profile of an individual borrower. Each Bank and Association has its own set of underwriting standards and lending policies, approved by its board of directors, that provides direction to its loan officers. Underwriting standards include, among other things, an evaluation of:

- character — borrower integrity and credit history,
- capacity — repayment capacity of the borrower based on cash flows from operations or other sources of income,
- collateral — protects the lender in the event of default and represents a potential secondary source of loan repayment,
- capital — ability of the operation to survive unanticipated risks, and
- conditions — intended use of the loan funds.

The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity and financial position, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85% of the original appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250,000.

System institutions use a two-dimensional loan rating model based on internally generated combined System risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's opinion as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months. The economic loss represents the principal balance plus interest at the date of default less the present value of subsequent cash flows, including the collection or charge-off of the loan. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship.

The model's 14-point risk rating scale provides for nine acceptable categories, one other assets especially mentioned category, two substandard categories, one doubtful category and one loss category. These categories are defined as follows:

- acceptable — assets are expected to be fully collectible and represent the highest quality,
- other assets especially mentioned (OAEM) — assets are currently collectible but exhibit some potential weakness,
- substandard — assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable, and
- loss — assets are considered uncollectible.

Each of the probability of default categories carry a distinct percentage of default probability. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to OAEM and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The loss given default is separated into four categories that are defined as follows:

- W — no principal loss is expected; anticipated economic loss of 0%-15%
- A — anticipated principal loss of 0% to 15%; anticipated economic loss of 15%-25%
- M — anticipated principal loss of 15% to 40%; anticipated economic loss of 25%-50%
- U — anticipated principal loss of greater than 40%; anticipated economic loss of greater than 50%

The credit risk rating methodology is a key component of each Bank's and Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limits.

In addition, borrower and commodity concentration lending limits have been established by each individual System institution to manage credit exposure. The regulatory lending limit to any one borrower is 25% of the institution's capital but System institutions' boards of directors have generally established more restrictive lending limits.

The Banks manage credit risk arising from their wholesale loans (revolving lines of credit) to their affiliated Associations as well as credit risk arising from the Banks' retail loans to borrowers. An Association's ability to repay its loan from its affiliated Bank is dependent on repayment of loans made to the Association's borrowers. Monitoring of the credit risk by the related Bank of an Association's loan portfolio, together with appropriate credit administration and servicing, reduces credit risk on the wholesale loans. Monitoring may include various mechanisms, including testing the reliability of an Association's credit classifications, periodic meetings with the Association's management and board of directors, formalized risk assessments, and prior approval by the Bank of transactions that exceed the Association's delegated lending authority (which is determined by the Bank). In addition, some Banks utilize risk-based pricing programs that price funds differentially to Associations based on risk profiles. Each Bank utilizes a "General Financing Agreement" setting forth the terms and conditions of each loan to its affiliated Associations to achieve its goal of managing credit risk. This agreement generally includes:

- typical commercial lending provisions, including advance rates based on quality of pledged assets and financial performance covenants,
- a pledge of substantially all Association assets as collateral for the loan,
- a risk-based score that is based on the Association's profitability, credit quality, risk coverage, capital adequacy and quality of credit administration,
- a requirement that retail loans originated by the Association over an established dollar amount be approved by the Bank and all loans to Association board members receive prior approval by the Bank, and
- a requirement that the Association adopt underwriting standards consistent with the Bank's underwriting guidelines and maintain an internal audit function, which reviews its lending operations.

By selling loans or interests in loans to other institutions within the System or outside the System, a Bank or Association can manage its growth and capital, and limit its exposure to either a borrower or geographic, industry or commodity concentration. By buying loans or interests in loans from another System institution or from outside the System, a Bank or Association can improve diversification.

Portfolio credit risk is also evaluated with the goal of managing the concentration of credit risk. Concentration risk is reviewed and measured by each institution by industry, product, geography and customer limits. The concentrations at the System level are illustrated in the "Loan Portfolio Diversification" section that follows.

Loan Portfolio

The System's loan portfolio consists only of retail loans. Bank loans to affiliated Associations have been eliminated in the combined financial statements. Loans outstanding for each of the past five years consisted of:

	December 31,				
	2010	2009	2008	2007	2006
			(in millions)		
Real estate mortgage loans	$ 78,021	$ 75,352	$ 71,892	$ 63,458	$ 56,489
Production and intermediate-term loans	40,584	39,610	37,468	32,267	28,731
Agribusiness loans:					
Loans to cooperatives	16,181	10,525	12,213	15,855	12,222
Processing and marketing loans	11,145	10,996	12,160	9,772	6,781
Farm-related business loans	2,255	2,105	2,528	2,464	2,138
Energy and water/waste disposal loans	11,456	10,676	9,387	7,496	6,279
Rural residential real estate loans	5,475	4,977	4,611	3,965	3,408
International loans	4,036	3,956	4,077	2,135	2,183
Communication loans	3,635	3,886	4,544	3,350	3,290
Lease receivables	2,021	2,160	1,952	1,708	1,489
Loans to other financing institutions	542	587	591	436	426
Total loans	$175,351	$164,830	$161,423	$142,906	$123,436

Loans by type as a percentage of total loans for each of the past five years were:

	December 31,				
	2010	2009	2008	2007	2006
Real estate mortgage loans	44.5%	45.7%	44.5%	44.4%	45.8%
Production and intermediate-term loans	23.1	24.0	23.2	22.6	23.3
Agribusiness loans:					
Loans to cooperatives	9.2	6.4	7.6	11.1	9.9
Processing and marketing loans	6.4	6.7	7.5	6.8	5.5
Farm-related business loans	1.3	1.3	1.6	1.7	1.7
Energy and water/waste disposal loans	6.5	6.5	5.8	5.3	5.1
Rural residential real estate loans	3.1	3.0	2.9	2.8	2.8
International loans	2.3	2.4	2.5	1.5	1.8
Communication loans	2.1	2.3	2.8	2.3	2.6
Lease receivables	1.2	1.3	1.2	1.2	1.2
Loans to other financing institutions	0.3	0.4	0.4	0.3	0.3
Total loans	100.0%	100.0%	100.0%	100.0%	100.0%

The year-to-year increase in loan volume was 6.4% in 2010, 2.1% in 2009, 13.0% in 2008 and 15.8% in 2007. The increase in loan volume for 2010 was primarily due to growth in agribusiness loans, particularly loans financing grain inventories, due to a sharp increase in the prices for certain agricultural commodities in the latter half of the year, and real estate mortgage loans. The modest loan growth experienced in 2009 was primarily the result of softened loan demand, as compared to the levels of the past few years, due to the decline in commodity prices and the overall downturn in the U.S. and global economies. Further, in light of the then current economic conditions, System managements carefully managed loan growth and adhered to prudent underwriting standards to appropriately manage credit risk in order to maintain conservative capital ratios, while continuing to fulfill their mission. The large growth in the prior years represented an increase in our aggregate market share of farm debt (principally defined as real estate

mortgage loans and production and intermediate-term loans). These increases were largely attributable to competitively priced credit offered to borrowers and to historically high commodity prices, which contributed to the increased cost of land, inputs and customer inventories.

At December 31, 2010, real estate mortgage loans increased $2.669 billion or 3.5% from the December 31, 2009 level primarily due to successful marketing efforts and competitive interest rates. In addition, during the fourth quarter of 2010 there was increased activity in the real estate mortgage portfolio as land prices increased in certain regions of the U.S. in line with prices for commodities supporting the land values. Production and intermediate-term loans increased $974 million or 2.5%, as compared with December 31, 2009, primarily due to increased demand for shorter-term borrowing by our core customer base.

Loans to cooperatives increased $5.656 billion or 53.7% from year-end 2009 to $16.181 billion at December 31, 2010 and increased from $8.972 billion at June 30, 2010 and from $12.376 billion at September 30, 2010. Loan demand increased significantly from cooperative customers in the second half of 2010, which was primarily the result of a sharp increase in prices and volatility for certain commodities, including corn, soybeans and wheat. These higher and more volatile commodity prices contributed to the increased cost of customer inventories and resulted in increased customer financing of working capital requirements. If prices decrease and volatility is reduced for certain commodities, we would anticipate that loan demand would decrease.

Energy and water/waste disposal loans increased $780 million or 7.3% from the December 31, 2009 level. The increase resulted from an increase in lending activity in the electric distribution sector driven by refinancing of borrowings from other lenders and financing of capital expenditures.

At December 31, 2010, loans made in connection with international transactions continued to reflect a major concentration in federal government-sponsored trade financing programs. Overall, 85% and 92% of the loans made in connection with international transactions at December 31, 2010 and 2009 were guaranteed through the USDA's Commodity Credit Corporation.

As previously discussed, while real estate mortgage loans may be made up to 85% of the appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a federal, state or other governmental agency, System institutions' underwriting standards generally limit lending to a percentage less than the statutory maximum percentage. These loans represent the largest component of the System's loan portfolio and the following table provides credit risk information aggregating System institutions' managements assessments of the probability of default and loss given default of real estate mortgage loans outstanding of $78.021 billion and unfunded commitments of $11.540 billion at December 31, 2010.

		Loss Given Default				
				Economic Loss*		
Risk Ratings	Uniform Loan Classification System	W 0-15%	A 15-25%	M 25-50%	U >50%	Total
				(in millions)		
1 through 3	Acceptable	$ 1,925	$ 129	$ 733	$ 13	$ 2,800
4	Acceptable	4,107	1,284	847	21	6,259
5	Acceptable	8,017	3,778	1,236	157	13,188
6	Acceptable	10,166	4,773	1,289	113	16,341
7	Acceptable	10,910	5,177	6,154	110	22,351
8	Acceptable	6,769	3,494	1,684	115	12,062
9	Acceptable	4,533	2,124	1,441	179	8,277
10	OAEM	2,119	1,005	796	136	4,056
11	Substandard (viable)	1,028	807	556	141	2,532
12	Substandard (non-viable)	480	499	379	257	1,615
13	Doubtful	1	18	10	51	80
14	Loss					
	Total	$50,055	$23,088	$15,125	$1,293	$89,561

* Economic loss is the principal balance plus interest at the date of default less the present value of subsequent cash flows, including the collection or charge-off of the loan. See page 46 for a discussion of loss given default categories.

Loan Portfolio Diversification

We make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities. Our loan portfolio at the System level is diversified by commodities financed and geographic locations served, as illustrated in the following two tables. Due to the geographic territories served by Banks and Associations, most institutions have higher geographic, borrower and commodity concentrations than does the System as a whole.

Commodity and industry categories are based on the Standard Industrial Classification System published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. Primary business is assigned if the commodity or industry accounts for 50% or more of the total value of sales for its products; however, generally a large percentage of agricultural operations include more than one commodity. Otherwise, the category assigned will be considered as other.

	December 31, 2010		December 31, 2009	
	Amount	Percentage	Amount	Percentage
	($ in millions)			
Cash grains (includes corn, wheat and soybeans)	$ 28,370	16.18%	$ 23,552	14.29%
Cattle	16,196	9.24	15,884	9.64
Dairy farms	14,053	8.01	13,420	8.14
Energy and water/waste disposal	11,456	6.53	10,676	6.48
Rural home loans, farm landlords and part-time farms	11,343	6.47	10,948	6.64
Tree fruits, nuts and grapes	11,066	6.31	11,053	6.71
Farm supplies and marketing	11,025	6.29	6,612	4.01
Forestry	9,951	5.67	10,303	6.25
Field crops (includes sugar beets, potatoes and vegetables)	9,698	5.53	9,530	5.78
Food products (includes meat, dairy and bakery products)	8,468	4.83	8,625	5.23
General farms, primarily crop	6,240	3.56	6,106	3.70
Agricultural services and fish	5,397	3.08	5,204	3.16
Poultry and eggs	5,343	3.05	5,505	3.34
Hogs	4,111	2.34	4,666	2.83
General farms, primarily livestock	4,042	2.31	4,039	2.45
International loans	4,036	2.30	3,956	2.40
Communication	3,635	2.07	3,886	2.36
Biofuels (primarily ethanol)	2,352	1.34	2,537	1.54
Cotton	2,069	1.18	1,910	1.16
Other livestock	1,615	0.92	1,670	1.01
Other	4,885	2.79	4,748	2.88
	$175,351	100.00%	$164,830	100.00%

The System makes credit available in all 50 states, the Commonwealth of Puerto Rico, and U.S. territories under conditions set forth in the Farm Credit Act. The following table presents the geographic distribution of the System's loan portfolio for states that represented 1% or more of the System's total loan volume during one or more of the past three years:

State	2010	2009	2008
California	9.41%	10.16%	8.76%
Texas	7.09	7.89	8.12
Iowa	6.24	5.52	5.31
Illinois	4.89	4.15	4.06
Minnesota	4.48	4.13	4.58
Nebraska	4.38	3.73	3.88
Ohio	3.65	3.47	3.33
Indiana	3.00	2.93	2.88
Wisconsin	2.95	2.84	2.70
Kansas	2.81	2.38	2.38
Missouri	2.60	2.60	2.70
Michigan	2.54	2.49	2.38
Florida	2.53	2.93	3.21
North Carolina	2.37	2.48	2.48
Tennessee	2.36	2.45	2.63
South Dakota	2.23	2.13	2.02
Georgia	2.23	2.38	2.60
Washington	2.12	2.25	2.31
North Dakota	2.09	2.00	1.78
Oregon	2.06	2.14	2.83
New York	2.03	2.21	2.28
Arkansas	1.98	2.01	1.92
Kentucky	1.90	1.83	1.81
Colorado	1.84	1.99	1.93
Virginia	1.66	1.45	1.70
Idaho	1.64	1.78	1.74
Pennsylvania	1.47	1.67	1.71
Alabama	1.32	1.39	1.36
Oklahoma	1.31	1.26	1.21
Mississippi	1.31	1.20	1.15
Maryland	1.01	1.04	1.04
Other	10.50	11.12	11.21
	100.00%	100.00%	100.00%

The table below sets forth the loans by dollar size:

Range ($ in thousands)	December 31, 2010		December 31, 2009	
	Amount Outstanding	Number of Loans	Amount Outstanding	Number of Loans
	($ in millions)			
$1 - $250	$ 46,468	791,989	$ 43,985	730,430
$251 - $500	20,580	54,803	19,374	54,850
$501 - $1,000	18,426	25,585	17,721	25,433
$1,001 - $5,000	39,922	19,547	39,455	19,218
$5,001 - $25,000	27,952	3,241	26,804	3,112
$25,001 - $100,000	8,949	199	7,017	165
$100,001 - $250,000	8,223	55	6,595	46
Over $250,000	4,831	15	3,879	12
Total	$175,351	895,434	$164,830	833,266

Note: Loans greater than $100 million are aggregated by borrower.

Small loans (less than $250 thousand) accounted for 88% of System customers and 26% of System loan volume at December 31, 2010, as compared with 88% and 27% at December 31, 2009. Credit risk on small loans, in many instances, is reduced by off-farm income sources. Generally, loans up to $250 thousand are evaluated using validated automated credit scorecards (which are mathematical models that provide a quantitative measurement of a borrower's creditworthiness). Credit scorecards are widely used by the System for smaller loans, including production and intermediate-term, real estate mortgage and rural residential real estate loans.

The table sets forth scored loans for the past two years:

	December 31, 2010	December 31, 2009
	($ in millions)	
Number of credit-scored loans	487,324	459,577
Amount of credit-scored loans	$ 24,483	$ 22,339
Delinquent (30 days or more past due) credit scored loans as a % of credit scored loans	1.51%	1.29%
Delinquent loans for overall portfolio as a % of accruing loans	0.33%	0.53%

The largest 10 borrowers accounted for $3.535 billion or 2.02% of the System's total outstanding loans at December 31, 2010, as compared with $3.369 billion or 2.04% at December 31, 2009. The concentration of large loans to relatively few borrowers continued to be a significant factor in assessing the credit risk associated with loans. Although not a formal limit, we have established a quarterly process to identify and monitor System large loan exposures (outstanding loan amounts plus any unfunded loan commitments) to existing individual customers that

may reach $750 million. Since it is possible that one or more System institutions may simultaneously make credit available to a customer that may, in the aggregate, exceed $750 million, the process provides for quarterly data to be compiled on existing large loan exposures with notice provided to the Banks and Associations of the largest ten loan exposures, including all loan exposures to a borrower greater than 75% of the $750 million level or $563 million. At both December 31, 2010 and 2009, five exposures (including unfunded commitments) exceeded $563 million but were below the $750 million level.

Credit risk on loans made in connection with international transactions remained relatively low, because approximately 85% and 92% of these loans were guaranteed under federal government programs as of December 31, 2010 and 2009. Additionally, we have reduced, to some extent, the credit risk of some real estate mortgage loans by entering into agreements that provide long-term standby commitments to purchase System loans and other credit guarantees. The amount of loans under credit guarantees was $4.426 billion at December 31, 2010, of which $1.677 billion was provided by Farmer Mac, as compared with total credit guarantees of $4.705 billion at December 31, 2009, of which $2.076 billion was provided by Farmer Mac. Fees paid for credit guarantees totaled $21 million in 2010, $20 million in 2009, and $18 million in 2008, and are included in other operating expenses.

Agricultural Sectors Experiencing Credit Stress

Certain agricultural sectors have experienced significant credit stress during the past few years and have generally been impacted by reduced demand for their products and increased input costs, particularly for borrowers who purchased crops in 2008 for future production. The forestry sector has also experienced credit quality deterioration as a result of the overall downturn in the U.S. economy and the housing market.

The following table provides additional information on the agricultural sectors that have experienced significant credit stress during the past few years (although the hog and ethanol sectors have recently improved somewhat):

December 31, 2010	Loans Outstanding	Nonaccrual Loans Included in Loans Outstanding	Loan Charge-offs
	(in millions)		
Cattle	$16,196	$ 327	$ 66
Dairy farms	14,053	656	153
Forestry	9,951	422	102
Hogs	4,111	49	4
Biofuel (primarily ethanol)	2,352	175	29
Total	$46,663	$1,629	$354
December 31, 2009			
Cattle	$15,884	$ 279	$ 7
Dairy farms	13,420	640	73
Forestry	10,303	392	37
Hogs	4,666	398	15
Biofuel (primarily ethanol)	2,537	370	142
Total	$46,810	$2,079	$274

Loan Portfolio Maturity Distribution

The following table presents the contractual maturity distribution of loans, excluding real estate mortgage and rural residential real estate loans, at December 31, 2010:

	Due in 1 Year or Less	Due After 1 Year Through 5 years	Due After 5 years	Total
	(in millions)			
Production and intermediate-term loans	$19,712	$14,416	$ 6,456	$40,584
Loans to cooperatives	9,020	4,226	2,935	16,181
Processing and marketing loans	5,249	3,032	2,864	11,145
Farm-related business loans	1,003	614	638	2,255
Energy and water/waste disposal loans	2,053	1,621	7,782	11,456
International loans	1,863	2,173		4,036
Communication loans	938	1,666	1,031	3,635
Lease receivables	214	1,096	711	2,021
Loans to other financing institutions	300	230	12	542
Total	$40,352	$29,074	$22,429	$91,855

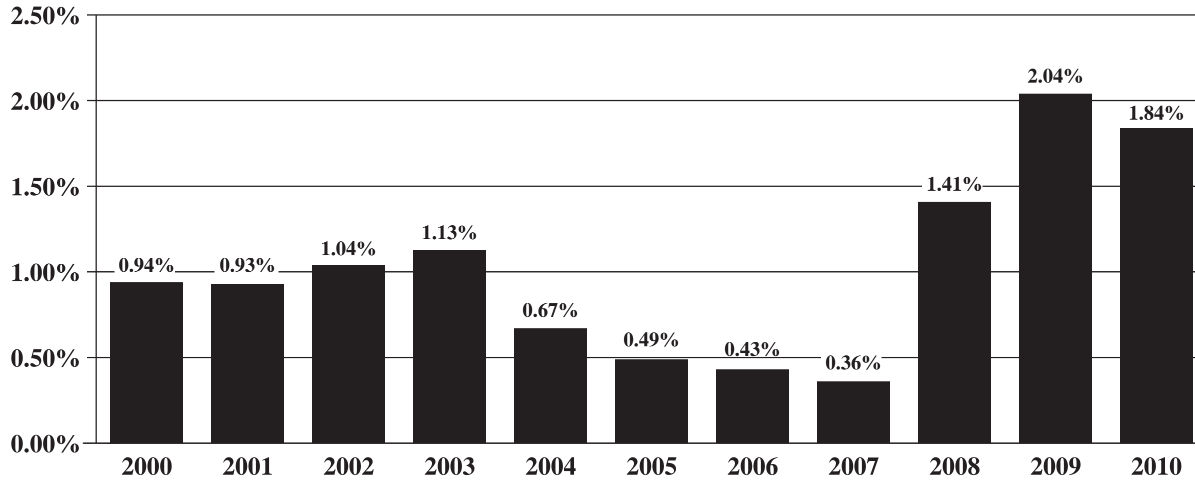
Note: Real estate mortgage and rural residential real estate loans have been excluded from the table above given the long-term maturities of such loans, including maturities of up to 40 years in certain cases, and the distorting affect of including such loans in the table.

Nonperforming Assets

Nonperforming assets by loan type for each of the past five years consisted of the following:

	December 31,				
	2010	2009	2008	2007	2006
	(in millions)				
Nonaccrual loans:					
Real estate mortgage	$1,662	$1,248	$ 526	$245	$210
Production and intermediate-term	1,017	1,303	659	156	137
Agribusiness	350	595	986	78	96
Energy and water/waste disposal	6	31	10		67
Rural residential real estate	78	59	38	23	17
International			5		
Communication	83	116	30		
Lease receivables	33	17	28	10	6
Total nonaccrual loans	3,229	3,369	2,282	512	533
Accruing restructured loans:					
Real estate mortgage	47	37	30	41	50
Production and intermediate-term	21	27	5	11	6
Agribusiness	46		1	1	1
Total accruing restructured loans	114	64	36	53	57
Accruing loans 90 days or more past due:					
Real estate mortgage	20	45	26	31	12
Production and intermediate-term	14	24	34	19	8
Agribusiness	1	18	30	3	3
Rural residential real estate	7	10	7	3	1
Communication		2			
Lease receivables	1	3	1		1
Total accruing loans 90 days or more past due	43	102	98	56	25
Total nonperforming loans	3,386	3,535	2,416	621	615
Other property owned	454	241	46	32	21
Total nonperforming assets	$3,840	$3,776	$2,462	$653	$636

Nonaccrual Loans As a % of Total Loans Outstanding as of December 31,



Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or when circumstances indicate that collection of principal and interest is in doubt. Nonaccrual loans may be transferred to accrual status if all contractual principal and interest due on the loan is paid and the loan is current, prior charge-offs are recovered, no reasonable doubt remains as to the borrowers willingness and ability to perform in accordance with the loan terms, and the borrower has demonstrated payment performance.

As indicated in the above charts, nonaccrual loans were $3.229 billion, $3.369 billion and $2.282 billion at December 31, 2010, 2009 and 2008. Nonaccrual loans began to increase in 2008 primarily due to stress in the poultry and ethanol industries, in large part, due to a sharp increase in the price of corn, an input used by both industries. In 2009, nonaccrual loans increased to $3.369 billion at December 31, 2009. Although improvements were seen in the poultry industry, credit stress grew in the cattle, hog and dairy industries due to increased feed costs and pressure experienced by these industries on the revenue side. In addition, credit conditions on loans to the forestry industry were adversely impacted due to deterioration in the U.S. economy and housing market.

Although nonaccrual loans decreased $140 million to $3.229 billion at December 31, 2010, these loans continue to reflect the continued financial stress in certain sectors of the agricultural economy, as well as weaknesses in the general U.S. and global economies. As noted in the table on page 51, certain sectors that have experienced credit stress accounted for $1.629 billion or 50% of the total nonaccrual loans at December 31, 2010 and 59% of the net loan charge-offs for 2010.

Nonaccrual loans as a percentage of total loans outstanding decreased from 2.04% at December 31, 2009 to 1.84% at December 31, 2010. Nonaccrual loans that were current as to principal and interest were 49.7% of total nonaccrual loans at December 31, 2010, as compared with 51.6% at December 31, 2009. Nonaccrual loans contractually past due with respect to either principal or interest were $1.625 billion and $1.629 billion at December 31, 2010 and 2009.

At December 31, 2010, the ten largest nonaccrual loans totaled $447 million, while at December 31, 2009, the ten largest nonaccrual loans totaled $976 million.

Accruing restructured loans, including related accrued interest, were $114 million and $64 million at December 31, 2010 and 2009. The restructured loans include only the year-end balances of loans (and related accrued interest) on which monetary concessions have been granted to borrowers and that are in accrual status. Restructured loans do not include loans on which extensions or other nonmonetary concessions have been granted, or restructured loans on which monetary concessions have been granted but which remain in nonaccrual status. Upon restructuring, our accounting policies generally require a period of loan performance during which time the borrower complies with the restructured terms before a loan is transferred to accruing restructured status.

The following table presents the nonaccrual loan activity during the past three years:

	For the Year Ended December 31,		
	2010	2009	2008
		(in millions)	
Balance at beginning of year	$ 3,369	$ 2,282	$ 512
Additions:			
Gross amounts transferred into nonaccrual	2,418	4,152	2,390
Recoveries	70	29	17
Advances	609	684	232
Other, net			24
Reductions:			
Charge-offs	(673)	(545)	(127)
Transfers to other property owned	(340)	(474)	(37)
Returned to accrual status	(562)	(948)	(69)
Repayments	(1,644)	(1,767)	(660)
Other, net	(18)	(44)	
Balance at end of year	$ 3,229	$ 3,369	$2,282

The increased volatility in the agricultural commodity market and the impact from increased cost of farm inputs during the past two years have resulted in higher risk profiles for certain of our borrowers, including livestock and dairy producers, and borrowers that use corn or other grains in their products. As previously discussed, weakness in the general economy and the housing market has also impacted certain borrowers, particularly in the forestry industry. In line with these higher risk profiles and the impact of the volatile agricultural commodity market, we anticipate credit quality in certain sectors of the loan portfolio could experience further stress in 2011.

Other property owned, which is held for sale, consists of real and personal property acquired through collection actions. The increase of $213 million during 2010 to $454 million at December 31, 2010 was primarily the result of properties being transferred from nonaccrual status. The properties relate to various sectors, including forestry, livestock and dairy.

Despite the volatility noted above, credit quality indicators improved during 2010 and remain at generally favorable levels. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans remained at a low level of 0.33% at December 31, 2010, as compared with 0.53% at December 31, 2009. As reflected in the table on the following page, loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable increased to 95.4% at December 31, 2010, as compared with 94.8% at December 31, 2009. The credit quality of our loan portfolio was impacted by commodity price volatility and the ongoing impact from higher farm input costs in the current agricultural environment that adversely impacted borrowers in the dairy and livestock industries. In addition, the continuing stress in the general economy and the housing market has impacted borrowers in certain sectors, including the forestry sector. These factors had an impact on our real estate mortgage and rural residential real estate loans, which experienced increases in the substandard/doubtful accounts during 2010.

	2010	2009	2008
Real estate mortgage			
Acceptable	90.5%	92.0%	96.0%
OAEM	4.6	3.8	2.2
Substandard/doubtful	4.9	4.2	1.8
	100.0	100.0	100.0
Production and intermediate-term			
Acceptable	87.5	86.9	92.9
OAEM	5.8	5.5	3.1
Substandard/doubtful	6.7	7.6	4.0
	100.0	100.0	100.0
Agribusiness			
Acceptable	89.0	83.4	90.6
OAEM	7.0	8.4	3.5
Substandard/doubtful	4.0	8.2	5.9
	100.0	100.0	100.0
Energy and water/waste disposal			
Acceptable	98.5	99.4	99.8
OAEM	1.0	0.3	0.1
Substandard/doubtful	0.5	0.3	0.1
	100.0	100.0	100.0
Rural residential real estate			
Acceptable	95.8	96.4	97.4
OAEM	1.3	1.5	1.3
Substandard/doubtful	2.9	2.1	1.3
	100.0	100.0	100.0
International			
Acceptable	100.0	100.0	99.8
OAEM	0.0	0.0	0.1
Substandard/doubtful	0.0	0.0	0.1
	100.0	100.0	100.0
Communication			
Acceptable	94.6	94.9	96.8
OAEM	2.3	1.8	1.5
Substandard/doubtful	3.1	3.3	1.7
	100.0	100.0	100.0
Lease receivables			
Acceptable	93.8	92.6	94.1
OAEM	2.8	3.4	2.2
Substandard/doubtful	3.4	4.0	3.7
	100.0	100.0	100.0
Loans to other financing institutions			
Acceptable	99.1	100.0	100.0
OAEM	0.9	0.0	0.0
Substandard/doubtful	0.0	0.0	0.0
	100.0	100.0	100.0
Total Loans			
Acceptable	90.6	90.4	94.7
OAEM	4.8	4.4	2.4
Substandard/doubtful	4.6	5.2	2.9
	100.0	100.0	100.0

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by the managements of System institutions to be adequate to absorb probable losses existing in and inherent to their loan portfolios. The allowance for loan losses represents the aggregate of each System entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the combined financial statements, the allowance for loan losses of each System entity is particular to that institution and is not available to absorb losses realized by other System entities. Managements' evaluations consider factors that include, among other things, loan loss experience, portfolio quality, loan portfolio composition, collateral value, current agricultural production conditions and economic conditions.

Even though System borrowers are faced with increased challenges due to the current market and economic environment, their financial positions remain generally strong given the past decade of favorable U.S. farm economic conditions. In this regard, nonaccrual loans current as to principal and interest were 49.7% of total nonaccrual loans at December 31, 2010. Further, System underwriting standards require strong collateral support for loans. By regulation, all long-term real estate mortgage loans must have a loan-to-value ratio of 85% or less at origination. Most of the System's real estate mortgage loans at origination had a loan-to-value ratio below the statutory maximum of 85%.

In determining the allowance for loan losses, System institutions reflect estimated credit losses for specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the portfolio as of the balance sheet date. All nonperforming loans are specifically identified and are evaluated for impairment. At December 31, 2010, $1.333 billion of the System's $3.386 billion of nonperforming loans had specific reserves of $384 million. A specific reserve is charged off once the loss becomes certain or "known." The remaining $2.053 billion of nonperforming loans were evaluated and determined not to need a specific allowance.

One of the primary tools utilized by System institutions to determine probable losses inherent in their loan portfolios, which have not been specifically identified and evaluated for impairment, is to determine the credit risk ratings of the loans in their portfolios as indicated by the probability of default assigned to the loans multiplied by the estimated loss given default of the loans. The estimated losses derived from this calculation are aggregated, reviewed and adjusted to best reflect current economic and industry factors. The result of the analysis provides a basis to estimate probable losses and determine reserves adequate to cover these estimated probable losses.

The following table represents the risk rating distribution, as more fully discussed on page 46, for the System's outstanding loans of $175.351 billion and commitments to extend credit of $52.993 billion at December 31, 2010. Nonperforming loans or impaired loans are generally defined as substandard/non-viable, doubtful and loss loans.

		Loss Given Default				
				Economic Loss*		
Risk Ratings	Uniform Loan Classification System	W 0-15%	A 15-25%	M 25-50%	U >50%	Total
				(in millions)		
1 through 3	Acceptable	$ 4,621	$ 3,030	$ 1,137	$ 3,725	$ 12,513
4	Acceptable	10,723	9,898	2,006	1,778	24,405
5	Acceptable	12,632	15,764	3,605	2,872	34,873
6	Acceptable	15,318	17,917	4,110	2,433	39,778
7	Acceptable	15,709	19,418	10,911	1,729	47,767
8	Acceptable	10,539	12,480	5,349	1,567	29,935
9	Acceptable	7,591	7,879	4,532	662	20,664
10	OAEM	3,806	3,285	1,881	475	9,447
11	Substandard (viable)	1,605	2,179	1,405	967	6,156
12	Substandard (non-viable)	677	632	558	397	2,264
13	Doubtful	91	81	51	319	542
14	Loss					
	Total	$83,312	$92,563	$35,545	$16,924	$228,344

* Economic loss is the principal balance plus interest at the date of default less the present value of subsequent cash flows, including the collection or charge-off of the loan.

The allowance for loan losses was $1.447 billion, $1.359 billion and $936 million at December 31, 2010, 2009 and 2008. Net loan charge-offs of $596 million, $518 million and $99 million were recorded in 2010, 2009 and 2008. Net loan charge-offs as a percentage of average loans remained at low levels of 0.36%, 0.32% and 0.06% for 2010, 2009 and 2008.

The following table presents the activity in the allowance for loan losses for the most recent five years:

	For the Year Ended December 31,				
	2010	2009	2008	2007	2006
	($ in millions)				
Balance at beginning of year	$1,359	$ 936	$ 781	$ 734	$ 755
Charge-offs:					
Real estate mortgage	(236)	(121)	(33)	(35)	(12)
Production and intermediate-term	(221)	(130)	(29)	(18)	(19)
Agribusiness	(118)	(216)	(27)	(5)	(36)
Energy and water/waste disposal	(63)	(8)	(19)		(1)
Rural residential real estate	(11)	(9)	(2)	(1)	(1)
International	(3)	(3)	(9)		
Communication	(18)	(57)	(8)		
Lease receivables	(3)	(6)	(1)	(3)	(12)
Total charge-offs	(673)	(550)	(128)	(62)	(81)
Recoveries:					
Real estate mortgage	12	7	2	6	1
Production and intermediate-term	35	9	4	7	6
Agribusiness	11	11	18	6	8
Energy and water/waste disposal	4		2		11
Rural residential real estate		1			
International	2	2		1	1
Communication	13		1	8	2
Lease receivables		2	2		2
Total recoveries	77	32	29	28	31
Net loan charge-offs	(596)	(518)	(99)	(34)	(50)
Provision for loan losses	667	925	408	81	35
Adjustment due to Association mergers*	(12)	(9)			
Other**	29	25	(154)		(6)
Balance at end of year	$1,447	$1,359	$ 936	$ 781	$ 734
Ratio of net loan charge-offs during the period to average loans outstanding during the period	0.36%	0.32%	0.06%	0.03%	0.04%

* In three separate transactions during 2010 and in one transaction during 2009, Associations merged and the mergers were accounted for under the acquisition method of accounting. See Note 12 to the accompanying condensed combined financial statements.

** Represents net transfers into (out of) the allowance for loan losses from (to) the reserve for unfunded commitments. The reserve for unfunded commitments is reported as other liabilities in the Condensed Combined Statement of Condition.

The allowance for loan losses by loan type for the most recent five years is as follows:

	December 31,									
	2010	%	2009	%	2008	%	2007	%	2006	%
	($ in millions)									
Real estate mortgage	$ 418	28.9%	$ 347	25.5%	$214	22.9%	$131	16.8%	$110	15.0%
Production and intermediate-term	447	30.9	385	28.3	219	23.4	140	17.9	133	18.1
Agribusiness	395	27.3	455	33.5	357	38.1	323	41.4	289	39.4
Energy and water/waste disposal	63	4.3	62	4.6	60	6.4	75	9.6	97	13.2
Rural residential real estate	20	1.4	12	0.9	6	0.7	4	0.5	4	0.6
International	11	0.8	12	0.9	12	1.3	21	2.7	20	2.7
Communication	67	4.6	63	4.6	47	5.0	72	9.2	64	8.7
Lease receivables	25	1.7	22	1.6	20	2.1	15	1.9	17	2.3
Loans to other financing institutions	1	0.1	1	0.1	1	0.1				
Total	$1,447	100.0%	$1,359	100.0%	$936	100.0%	$781	100.0%	$734	100.0%

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

	December 31,				
	2010	2009	2008	2007	2006
Total loans	0.83%	0.82%	0.58%	0.55%	0.59%
Nonperforming loans	43	38	39	126	119
Nonaccrual loans	45	40	41	153	138

Credit Commitments

The following table summarizes the maturity distribution (expiration) of unfunded credit commitments at December 31, 2010:

	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years	Total
			(in millions)		
Commitments to extend credit	$29,477	$16,311	$4,364	$2,841	$52,993
Standby letters of credit	1,528	488	107	29	2,152
Commercial and other letters of credit	428	1			429
Total commitments	$31,433	$16,800	$4,471	$2,870	$55,574

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. These credit-related financial instruments, other than standby letters of credit, have off-balance-sheet credit risk because their contractual amounts are not reflected on the balance sheet until funded or drawn upon. However, standby letters of credit are reflected on the balance sheet at the fair value of the liability of $20 million as of December 31, 2010. The fair value of these letters of credit is estimated based on the cost to terminate the agreement or fees currently charged for similar agreements. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security are of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

At December 31, 2010, the System had a reserve for unfunded commitments of $107 million, as compared with a reserve of $136 million at December 31, 2009. The reserve for unfunded commitments is reported as other liabilities in the System Combined Statement of Condition.

Interest Rate Risk Management

Interest rate risk is the risk of loss of future earnings or long-term market value of equity that may result from changes in interest rates. This risk can produce variability in System earnings (net interest spread achieved and net interest income earned) and, ultimately, the long-term capital position of the System. The System actively manages the following risks:

- Yield curve risk — results from changes in the level, shape, and implied volatility of the yield curve. Changes in the yield curve often arise due to the market's expectation of future interest rates at different points along the yield curve.
- Repricing risk — caused by the timing differences (mismatches) between financial assets and related funding that limit the ability to alter or adjust the rates earned on assets or paid on liabilities in response to changes in market interest rates.
- Option risk — results from "embedded options" that are present in many financial instruments, including the right to prepay loans before the contractual maturity date. Lending practices or loan features that provide the borrower with flexibility frequently introduce a risk exposure for the lender. For example, a fixed-rate loan product may provide a potential borrower with a rate guarantee, an option to lock-in the loan rate for a period of time prior to closing, which protects the borrower from an increase in interest rates between the time loan terms are negotiated and the loan closes. If interest rates increase while the rate guarantee is in effect and if we do not take measures to hedge the rate guarantee, we might realize a lower spread than expected when the loan is funded.

  After the loan settles, the borrower may also have the option to repay the loan's principal ahead of schedule. If interest rates have fallen, System institutions may be forced to reinvest principal returned from higher rate loans at a lower rate, which may reduce the interest rate spread unless the underlying debt can be similarly refinanced.

  Interest rate caps are another form of embedded options that may be present in certain investments and floating and adjustable rate loans. Interest rate caps typically prevent the borrower's loan rate from increasing above a defined limit. In a rising interest rate environment, the lender's spread may be reduced if caps limit upward adjustments to floating loan rates while debt costs continue to increase.
- Basis risk — results from unexpected changes in the relationships among interest rates and interest rate indexes. Basis risk can produce volatility in the spread earned on a loan or an investment relative to its cost of funds. This risk arises when the floating-rate index tied to a loan or investment differs from the index on the Systemwide Debt Security issued to fund the loan or investment.

The goal of the Banks in managing interest rate risk is to maintain long-term value of equity and stable earnings over both the short- and long-term time horizons. In most cases, the wholesale funding provided by a Bank to an Association matches the terms of and embedded options in the Association's retail loans. This funding approach shifts the majority of the interest rate risk connected with retail loans from the Association to its funding Bank. The Banks are responsible for developing asset/liability management policies and strategies to manage interest rate risk and for monitoring this risk on a regular basis. These policies include guidelines for measuring and evaluating exposures to interest rate risk. In addition, the policies establish limits for interest rate risk and define the role of the board of directors in delegating day-to-day responsibility for interest rate risk management to Bank management. That authority is delegated to an asset/liability management committee, or ALCO, made up of senior Bank managers. The policies define the composition of the committee and its responsibilities. Interest rate risk management is also subject to certain intra-System agreements, including the Contractual Interbank Performance Agreement and the Market Access Agreement, and regulatory oversight by the Farm Credit Administration.

Historically, one of the primary benefits of our status as a government-sponsored enterprise debt issuer has been that, through the Funding Corporation and its selling group, the System has had daily access to the debt markets and a great deal of flexibility in structuring the maturity and types of debt securities we issued. The ability to quickly access the debt markets helped us minimize the risk that interest rates might change between the time a loan commitment is made and the time it is funded.

Flexibility in structuring debt enabled us to issue Systemwide Debt Securities that offset some of the

primary interest rate risk exposures embedded in our loans. For example, by issuing LIBOR-indexed, floating-rate Systemwide Debt Securities we are able to minimize the basis risk exposure presented by our LIBOR-indexed, floating-rate loans. As we discussed above, some of our fixed-rate loans may provide borrowers with the option to prepay their loans. In most interest rate environments we were able to significantly offset the risk created by an embedded prepayment option by funding prepayable fixed-rate loans with callable debt. Callable debt provides us with the option to retire debt early in order to maintain a better match between the duration of our assets and our liabilities. See "Business — Risk Factors" for a discussion of the uncertainty about the future of government-sponsored enterprises.

Approximately two-thirds of our fixed-rate loans provide the borrowers with the option to prepay their loan at any time, and the remainder of the System's fixed-rate loans contain provisions requiring prepayment fees to partially or fully compensate the Banks for the cost of retiring the debt, some of which may be non-callable, that is funding fixed-rate loans.

The Banks actively participate in the derivatives markets, which provides additional tools to manage risk. Our use of derivatives is detailed later in this section.

Interest Rate Risk Measurements

The Banks measure interest rate risk using:

- interest rate gap analysis — compares the amount of interest sensitive assets to interest sensitive liabilities in defined time periods,
- duration gap analysis — measures the difference between the estimated durations of assets and liabilities,
- net interest income sensitivity analysis — projects the impact of changes in the level of interest rates and the shape of the yield curve on net interest income for the next year, and
- market value of equity sensitivity analysis — projects the impact of changes in the level of interest rates and the shape of the yield curve on the market value of assets, liabilities and equity.

These measures are calculated on a monthly basis and the assumptions used in these analyses are monitored routinely and adjusted as necessary. The Banks use sophisticated simulation models to develop interest rate sensitivity estimates and periodically back test those models to ensure reasonable performance.

Interest Rate Risk Management Results

Interest Rate Gap Analysis

The interest rate gap analysis shown below presents a comparison of interest-sensitive assets and liabilities in defined time segments as of December 31, 2010. The interest rate gap analysis is a static indicator, which does not reflect the dynamics of balance sheet, rate and spread changes and may not necessarily indicate the sensitivity of net interest margin in a changing rate environment. Within the gap analysis, gaps are also created when an institution uses its capital to fund assets. Capital reduces the amount of debt that otherwise would be required to fund a certain level of assets. The quantity of assets will exceed the quantity of interest-bearing liabilities in any repricing interval where capital is assumed to provide part of the funding. The gap table below includes anticipated cash flows on assets and liabilities given the current level of interest rates:

	Repricing Intervals				
	0-6 Months	6 Months to 1 Year	1-5 Years	Over 5 Years	Total
			($ in millions)		
Floating-rate loans:					
Indexed/adjustable loans	$ 36,343	$ 1,031	$ 1,846	$ 776	$ 39,996
Administered-rate loans	37,002	2			37,004
Fixed-rate loans:					
Fixed-rate with prepayment or conversion fees	6,310	2,164	11,298	9,293	29,065
Fixed-rate without prepayment or conversion fees	17,400	8,650	29,510	10,497	66,057
Nonaccrual loans			791	2,438	3,229
Total gross loans	97,055	11,847	43,445	23,004	175,351
Federal funds sold, investments and other	24,630	4,982	9,388	3,543	42,543
Total earning assets	121,685	16,829	52,833	26,547	217,894
Interest-bearing liabilities:					
Callable bonds	8,162	8,380	17,750	11,210	45,502
Noncallable bonds and notes	81,873	14,074	34,842	12,482	143,271
Subordinated debt	500			1,150	1,650
Other interest-bearing liabilities	1,189	225		19	1,433
Total interest-bearing liabilities	91,724	22,679	52,592	24,861	191,856
Effect of interest rate swaps and other derivatives	25,243	(5,149)	(17,873)	(2,221)	
Total interest-bearing liabilities adjusted for swaps and other derivatives	116,967	17,530	34,719	22,640	191,856
Interest rate sensitivity gap (total earning assets less total interest-bearing liabilities adjusted for swaps and other derivatives)	$ 4,718	$ (701)	$ 18,114	$ 3,907	$ 26,038
Cumulative gap	$ 4,718	$ 4,017	$ 22,131	$26,038	
Cumulative gap as a percentage of total earning assets	2.17%	1.84%	10.16%	11.95%	

Consistent with the positive gap between the System's earning assets and interest-bearing liabilities as reflected in the table above, the System's interest rate sensitivity position at December 31, 2010 for repricing intervals in the first six months of 2011 may generally be characterized as "asset sensitive," i.e., interest rates earned by the System on earning assets may change or be changed more quickly than interest rates on the interest-bearing liabilities used to fund these assets.

Typically, the net interest margin of an institution that is "asset sensitive" will be unfavorably impacted in a declining interest-rate environment and favorably impacted in a rising short- and long-term interest-rate environment. The System's capital is invested in loans and investment securities that reprice to lower yields when interest rates are falling and to higher yields when interest rates increase. However, the net interest spread, a component of net interest margin, may react in a different manner due to competitive conditions at the time of repricing. Further, a significant portion of the System's floating-rate loans are management administered-rate loans that, unlike indexed loans, require definitive action at the discretion of the lending Bank or Association to change the interest rates charged and may reflect managements' assessments of whether rate changes are warranted or feasible in view of competitive market conditions. The actual interest rates charged on the administered-rate loans may not mirror the movement of some market interest rates, thereby moderating the overall net interest income impact of market fluctuations that would otherwise exist for asset-sensitive institutions.

Additionally, the Banks issue callable debt to accelerate the repricing of debt in a declining interest rate environment and thereby moderate the impact of falling interest rates on net interest income of institutions in an asset-sensitive position. During 2010, $65.6 billion of debt was called and at December 31, 2010, $45.5 billion of callable debt obligations were

outstanding. The System's cumulative gap position in the 0-6 months repricing interval increased from 0.73% at December 31, 2009 to 2.17% at December 31, 2010.

Duration Gap Analysis

Another risk measurement is duration, which we calculate using a simulation model. Duration is the weighted average maturity (typically measured in months or years) of an instrument's cash flows, weighted by the present value of those cash flows. As such, duration provides an estimate of an instrument's sensitivity to small changes in market interest rates. The duration gap is the difference between the estimated durations of assets and liabilities. All else being equal, an institution with a small duration gap has less exposure to interest rate risk than an institution with a large duration gap.

A positive duration gap means there is a greater exposure to rising interest rates because it indicates that the duration of our assets exceeds the duration of our liabilities. A negative duration gap means that there is a greater exposure to declining interest rates because the duration of our assets is less than the duration of our liabilities. At December 31, 2010, the System's aggregate duration gap was a negative 0.1 months, as compared with a positive 0.5 months at December 31, 2009. A duration gap within the range of a positive three months to a negative three months generally indicates a small exposure to changes in interest rates.

Duration gap provides a relatively concise and simple measure of the interest rate risk inherent in the balance sheet, but it is not directly linked to expected future earnings performance. An institution's overall exposure to interest rate risk is a function not only of the duration gap, but also of the financial leverage inherent in the institution's capital structure. For the same duration gap, an institution with more equity or capital will have a lower overall percentage exposure to interest rate risk, stated in terms of the percentage change in the market value of equity, than one with less capital and more leverage.

There are some limitations to duration analysis as balance sheets are dynamic. Durations change over time and as the composition of a portfolio changes.

Sensitivity Analysis

In addition to the static view of interest rate sensitivity shown by the gap analysis and the simple duration gap, each Bank conducts simulations of net interest income and market value of equity. The market value of equity sensitivity analysis incorporates the effects of leverage. The two primary scenarios used for the analysis reflect the impact of interest rate shocks upward and downward (i.e., immediate, parallel changes upward and downward in the yield curve) on projected net interest income and on market value of equity. The Banks also use other types of measures to model exposures to interest rate changes, such as rate ramps (gradual change in rates) and yield curve slope changes.

The upward and downward shocks are generally based on movements of 100 and 200 basis points in interest rates, which are considered significant enough to capture the effects of embedded options and convexity within the assets and liabilities so that underlying risk may be revealed. However, in the current, relatively low interest rate environment, the downward shock is based on one-half of the three-month Treasury bill rate, which was 6 basis points and 3 basis points at December 31, 2010 and 2009. Under these simulations, the System's sensitivity to interest rate changes was:

	December 31, 2010		
	−6	+100	+200
Change in net interest income	−0.30%	3.01%	5.23%
Change in market value of equity	0.03%	−1.46%	−3.47%

	December 31, 2009		
	−3	+100	+200
Change in net interest income	−0.15%	2.86%	4.30%
Change in market value of equity	0.03%	−1.82%	−4.17%

Each Bank's interest rate risk management policy establishes limits for changes in net interest income sensitivity and market value of equity sensitivity. These limits are measured monthly and reported to each Bank's board of directors at least quarterly. The limits set by the Banks' boards of directors for net interest income and market value of equity sensitivity ranged up to a negative 20% for a 200 basis point shock. During 2010 and 2009, no Bank exceeded its policy limits.

Further, each Bank has established a District limit not to exceed a 15% negative movement for changes in net interest income sensitivity and market value of equity sensitivity as measured using the combined results of each Bank and its affiliated Associations. This limit is measured and reported on a quarterly basis. None of the Banks exceeded the District limit during 2010 and 2009. District measurements are

presented in Supplemental Financial Information on page F-67.

In addition to the interest rate scenarios required for reporting and regulatory purposes, the Banks also periodically perform additional scenario analyses to study the effects of changes in critical modeling assumptions — for example, the impact of increased/decreased prepayments, changes in the relationship of the System's funding cost to other benchmark interest rates, additional non-parallel shifts in the yield curve, and changes in market volatility.

One of the primary modeling assumptions affecting the measurement of market value of equity is the prepayment function. The cash flows on some of our fixed-rate agricultural loans and most of our mortgage-related investment securities are sensitive to changes in interest rates because borrowers may have the flexibility to partially or completely repay the loan ahead of schedule. When interest rates decrease, borrowers can often reduce their interest costs by refinancing their fixed-rate loans. The financial incentive for the borrowers to refinance their loans increases as interest rates decline and the potential savings increase.

When interest rates rise, borrowers with fixed-rate loans lack the incentive to prepay their loans. However, prepayments can occur in any rate environment due to real estate sales transactions or early repayment of loans for reasons unrelated to interest rate conditions.

Lenders closely study the relationship between interest rates, the potential savings available from refinancing, and actual loan prepayment activity in order to gain a better understanding of prepayment behavior and more accurately forecast cash flows for prepayable loans and mortgage-related investments.

We gather and maintain loan information, including prepayment data, for use in developing prepayment models for agricultural loans. These models typically specify a minimum or "baseline" level of expected prepayments that is not affected by the general level of interest rates, along with an interest-sensitive component that projects faster prepayments as the potential refinancing advantage increases. The refinancing advantage is defined as the difference between the loan rate on an outstanding fixed-rate loan and the current loan rate offered for a new fixed-rate loan with a similar maturity. Further, model refinements may reflect differences due to the loan product type and age or "seasoning" of the loan. The Banks' agricultural loan prepayment models are based on proprietary data and may differ from Bank to Bank and from prepayment models developed for use with residential mortgages.

We also maintain investment portfolios that contain mortgage and asset-backed investments that may also be subject to prepayment risk. Detailed prepayment data for these assets are readily available and a number of banks and fixed-income consulting firms market product-specific prepayment models for use in asset/liability risk management. The Banks typically subscribe to a commercially available prepayment model appropriate for these securities and integrate the analysis within their regular asset/liability analysis.

Derivative Products

Derivative products are an integral part of our interest rate risk management activities and supplement our issuance of debt securities in the capital markets. We use derivative financial instruments as hedges against interest rate and liquidity risks and to lower the overall cost of funds. We do not hold or enter into derivative transactions for trading purposes. Our ability to modify the debt securities by using derivative instruments provides us with greater flexibility to manage our interest rate risk.

The primary types of derivative products used and hedging strategies employed are summarized in the following table. For additional information, see Note 18 to the accompanying combined financial statements.

Derivative Products/Hedged Item	Purpose of the Hedge Transaction	Strategic Impact
Receive-fixed, pay-floating interest rate swap hedging callable or non-callable fixed rate debt	To protect against the decline in interest rates on assets by exchanging the debt's fixed-rate payment for a floating-rate payment that better reflects the amounts received on the assets.	A common use is to create a substitute for conventional floating-rate funding. The fixed-rate received on the swap largely offsets the fixed-rate paid on the associated debt leaving a net floating payment. The strategy frequently provides cost savings or promotes liquidity by permitting access to longer maturity floating-rate funding than may otherwise be available.
Pay-fixed, receive-floating interest rate swap hedging floating rate debt	To protect against an increase in interest rates by exchanging the debt's floating-rate payment for a fixed-rate payment that matches the cash flows of assets.	The combination of the pay-fixed, receive-floating swap with floating-rate funding results in a net fixed-rate payment. This strategy may provide lower cost fixed-rate funding than outright issuance of fixed-rate debt.
Floating-for-floating swap hedging floating-rate assets and liabilities	Used to manage the basis risk that can result when assets and liabilities are based on different floating-rate indexes or reprice at different times or on different frequencies.	The System's floating-rate loans and floating-rate investments are tied to a number of floating-rate indexes including Farm Credit's short-term debt cost, the prime rate, Federal funds and LIBOR. Ideally, floating-rate loans would be funded by issuing floating-rate funding tied to the same floating-rate index with identical reset terms. However, floating-rate funding is not consistently available to exactly meet these requirements. Floating-for-floating or "basis' swaps are used to bridge this gap.
Interest rate caps hedging floating-rate assets and debt	To replace income lost from floating-rate assets that have reached cap levels or to put a ceiling on interest cost on floating-rate debt.	Some floating-rate loans and investments may specify a maximum interest rate to limit the borrower's exposure to rising interest rates. Interest rate caps are purchased to provide offsetting protection against rising interest rates.
Interest rate floors hedging floating-rate loans	To protect against falling interest rates on floating-rate assets.	A purchased floor option will produce a cash flow when the index rate falls below the strike rate. Cash flow from the floor can be used to offset income lost on floating-rate assets when interest rates decline. Floor options may also be used in combination with interest rate caps to create interest rate collars or otherwise limit or modify floating-rate cash flows.

The aggregate notional amount of the System's derivative products, most of which consisted of interest rate swaps, decreased $1.567 billion to $45.051 billion at December 31, 2010, as compared with $46.618 billion at December 31, 2009. The aggregate notional amount of these instruments, which is not included in the Combined Statement of Condition, is indicative of the System's activities in derivative financial instruments, but is not an indicator of the level of credit risk associated with these instruments. The exposure to credit risk is a small fraction of the aggregate notional amount as more fully discussed on page 66. The majority of the swaps used by the Banks were receive-fixed swaps, which are used to improve liquidity and/or lower their cost of debt by issuing fixed-rate debt and swapping the debt to floating to create synthetic floating-rate debt.

The following table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates for the System's derivative financial instruments. The fair values of these derivatives were recognized in the Combined Statement of Condition. The table was prepared using the implied forward yield curve at December 31, 2010.

	Maturities of 2010 Derivative Products							
	2011	2012	2013	2014	2015	2016 and thereafter	Total	Fair Value at December 31, 2010
	($ in millions)							
Receive-fixed swaps								
Notional value	$10,928	$ 8,629	$5,795	$3,184	$2,428	$2,850	$33,814	$1,281
Weighted average receive rate	3.57%	2.41%	2.33%	2.46%	3.31%	4.59%	3.02%	
Weighted average pay rate	0.45%	0.95%	1.73%	2.24%	2.76%	3.59%	1.40%	
Pay-fixed and amortizing-pay fixed swaps								
Notional value	$ 318	$ 279	$ 353	$ 216	$ 408	$1,034	$ 2,608	$ (55)
Weighted average receive rate	0.48%	0.87%	1.64%	2.66%	2.68%	3.93%	2.57%	
Weighted average pay rate	3.25%	3.12%	2.39%	3.25%	3.45%	3.70%	3.33%	
Floating-for-floating and amortizing floating-for-floating swaps								
Notional value		$ 500	$ 300	$ 200	$ 350	$ 600	$ 1,950	$ (6)
Weighted average receive rate		1.81%	2.77%	3.57%	4.17%	4.48%	3.38%	
Weighted average pay rate		1.95%	3.00%	3.95%	4.32%	4.75%	3.60%	
Interest rate caps								
Notional value	$ 192	$ 1,139	$ 590	$ 442	$ 550	$ 973	$ 3,886	$ 23
Foreign exchange contracts								
Notional value	$ 150	$ 10	$ 9	$ 14	$ 1	$ 16	$ 200	$ (1)
Other derivative products								
Notional value	$ 706	$ 460	$ 325	$ 110	$ 408	$ 584	$ 2,593	$ 50
Total notional value	$12,294	$11,017	$7,372	$4,166	$4,145	$6,057	$45,051	$1,292
Total weighted average rates on swaps:								
Receive rate	3.47%	2.36%	2.31%	2.52%	3.34%	4.39%	3.03%	
Pay rate	0.53%	1.06%	1.82%	2.37%	2.99%	3.74%	1.66%	

Approximately 70% of the notional amounts of derivative products outstanding at December 31, 2010 were entered into to create synthetic floating-rate debt for the purpose of reducing the cost of directly issuing floating-rate debt or managing liquidity risk. Most of the remaining derivative products outstanding at December 31, 2010 were entered into for other asset/liability management purposes.

By using derivative instruments, we are exposed to counterparty credit risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk (exposure) will equal the fair value gain in a derivative. When the fair value of a derivative is positive, the counterparty would owe the Bank on early termination of the derivative, thus creating a credit risk for the Bank. When the fair value of the derivative is negative, the Bank would owe the counterparty on early termination of the derivative, and, therefore, assumes no credit risk.

To minimize the risk of credit losses from derivatives, we deal with counterparties that have an investment grade or better long-term credit rating from a Nationally Recognized Statistical Rating Organization such as Moody's Investors Service or Standard & Poor's Ratings Services, and also monitor the credit standing of and levels of exposure to individual counterparties. We typically enter into master agreements that govern all derivative transactions with a counterparty and contain netting provisions. These provisions allow us to use the net value of affected transactions with the same counterparty in the event of a default by the counterparty or early termination of the agreement. The counterparty credit ratings for the exposure on derivatives that would be owed to us due to a default or early termination by our counterparties at December 31, 2010 were:

Derivative Credit Exposure

	Number of Counterparties	Notional Principal	Years to Maturity(1) Less than 1 Year	1 to 5 Years	Over 5 Years	Maturity Distribution Netting(2)	Exposure	Collateral Held	Exposure, Net of Collateral
				($ in millions)					
Current Moody's Credit Rating									
Aaa	2	$ 1,610		$ 31	$ 4		$ 35	$ 34	$ 1
Aa1	3	9,557	$ 44	227	118	$ (4)	385	338	47
Aa2	4	9,014	56	138	77	(1)	270	252	18
Aa3	6	20,873	170	296	230	(8)	688	571	117
A2	2	684	7	40	8	(3)	52	4	48
A3	1	1,488	1		66		67	66	1
Baa2	2	45							
Total	20	$43,271	$ 278	$732	$503	$ (16)	$1,497	$1,265	$232

(1) Represents gain positions on derivative instruments with individual counterparties. Net gains represent the exposure to credit loss estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts within a maturity category. Within each maturity category, contracts in a loss position are netted against contracts in a gain position with the same counterparty. If the net position within a maturity category with a particular counterparty is a loss, no amount is reported.

(2) Represents impact of netting of derivatives in a gain position and derivatives in a loss position with the same counterparty across different maturity categories.

Note: The remaining notional amount of derivative financial instruments of $1.780 billion at December 31, 2010 was related to interest rate swaps that one Bank and one Association entered into with certain of their customers. The risk from these transactions is offset by concurrently entering into offsetting derivative transactions with some of the above counterparties.

At December 31, 2010, the credit exposure, net of collateral, decreased to $232 million from $264 million at December 31, 2009. 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 one are reached, which thresholds may vary depending on a counterparty's credit rating. At December 31, 2010, the Banks' counterparties posted $1.099 billion in cash and $166 million in securities as collateral with us, as compared with $1.100 billion of cash collateral and $104 million in securities at December 31, 2009. At December 31, 2010, one Bank posted collateral of $7 million; while at December 31, 2009, one Bank posted collateral of $2 million.

Liquidity Risk Management

General

Liquidity risk management is necessary to ensure our ability to meet our financial obligations. These obligations include the repayment of Systemwide Debt Securities as they mature, the ability to fund new and existing loan and other funding commitments, and the ability to fund operations in a cost-effective manner. A primary objective of liquidity risk management is to plan for unanticipated changes in the capital markets. The Banks have established a Contingency Funding Program to provide for contingency financing mechanisms and procedures to address potential disruptions in the System's communications, operations and payments systems, as well as the ability to cover events that threaten continuous market access by the Banks or the Funding Corporation's normal operations. Under this Program, the Funding Corporation has the option to finance all Systemwide Debt Securities through the issuance of Systemwide discount notes either directly to institutional investors or through the selling group. The Funding Corporation, on behalf of the Banks, may also incur other obligations, such as Federal funds purchased, that would be the joint and several obligations of the Banks and would be insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund.

Funding Sources

Our primary source of liquidity is the ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the Banks. We continually raise funds to support our mission to provide credit and related services to the agricultural and rural sectors, repay maturing Systemwide Debt Securities, and meet other obligations. As a government-sponsored enterprise, we have had access to the global capital markets. This access has traditionally provided us with a dependable source of

competitively priced debt that is critical to support our mission of providing funding to the agricultural and rural sectors.

Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings rate our long-term debt as Aaa, AAA and AAA, and our short-term debt as P-1, A-1+ and F1. These are the highest ratings available from these rating agencies. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's status as a government-sponsored enterprise. Material changes to the factors considered could result in a different debt rating. A rating issued by these rating agencies is not a recommendation to buy, sell, or hold securities. You should evaluate the rating of each rating agency independently. The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities.

Cumulative Systemwide Debt Securities maturities for the past two years were:

	December 31,	
	2010	2009
	(in millions)	
Debt maturing within:		
one day	$ 1,965	$ 1,650
one week	3,371	3,720
one quarter	21,569	19,509
six months	39,131	33,696
one year	68,067	61,750

Cash provided by the System's operating activities was $4.265 billion for 2010, $3.626 billion for 2009 and $3.015 billion for 2008 (primarily generated from net interest income in excess of operating expenses) and provided an additional source of liquidity for the System that is not reflected in the individual Bank's calculation of days of liquidity, which is discussed under "Liquidity Standard" below. Further, investments in the Insurance Fund would be used to repay maturing Systemwide Debt Securities to the extent available if no other sources existed to repay the debt. At December 31, 2010 and 2009, the assets in the Insurance Fund totaled $3.226 billion and $3.289 billion. (See "Insurance Fund" for additional information.)

Federal Funds and Available-for-Sale Securities

As permitted under Farm Credit Administration regulations, a Bank is authorized to hold Federal funds and available-for-sale investments (carried at fair value) in an amount not to exceed 35% of a Bank's average loans outstanding for the quarter. We utilize investments for the purposes of maintaining a diverse source of liquidity and managing short-term surplus funds and interest rate risk, and in so doing may enhance profitability. Farm Credit Administration regulations also permit an Association to hold eligible investments with the approval of its affiliated Bank. Federal funds and investments increased slightly to 23.8% of the Banks' average loans outstanding for the quarter ended December 31, 2010, as compared with 23.4% for the quarter ended December 31, 2009.

Farm Credit Administration regulations define eligible investments by specifying credit rating criteria, final maturity limit, and percentage of investment portfolio limit for each investment type. The Banks' investments must be highly rated by at least one Nationally Recognized Statistical Rating Organization, such as Moody's Investors Service, Standard & Poor's Ratings Services or Fitch Ratings.

Credit Rating Criteria by Investment Type

	Moody's	Standard & Poor's	Fitch
Overnight Federal funds	P-1, P-2	A-1+, A-1, A2	F1, F2
Term Federal funds	P-1, P-2	A-1+, A-1, A2	F1, F2
Commercial paper	P-1	A-1+, A-1	F1
Corporate securities	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA−	AAA, AA
Mortgage-backed securities	Aaa	AAA	AAA
Asset-backed securities	Aaa	AAA	AAA

Eligible investments (carried at fair value) based on credit ratings issued by Moody's Investors Service, Standard & Poor's Ratings Services, or Fitch Ratings were as follows:

December 31, 2010	Eligible Investments			
	AAA/Aaa	A1/P1/F1	Split Rated(1)	Total
	(in millions)			
Federal funds		$ 328	$ 350	$ 678
Commercial paper, bankers' acceptances, certificates of deposit and other securities		1,790	345	2,135
Corporate securities(2)	$ 2,688			2,688
U.S. Treasury securities	4,504			4,504
U.S. agency securities	895			895
Mortgage-backed securities:				
Agency collateralized	18,190			18,190
Agency whole-loan pass through	5,030			5,030
Non-agency	251		194	445
Private label-FHA/VA	644		363	1,007
Asset-backed securities	668		20	688
Total	$32,870	$2,118	$1,272	$36,260

December 31, 2009	Eligible Investments			
	AAA/Aaa	A1/P1/F1	Split Rated(1)	Total
	(in millions)			
Federal funds		$ 480	$ 400	$ 880
Commercial paper, bankers' acceptances, certificates of deposit and other securities		2,487	446	2,933
Corporate securities(2)	$ 2,251	666		2,917
U.S. Treasury securities	2,409			2,409
U.S. agency securities	869			869
Mortgage-backed securities:				
Agency collateralized	16,895			16,895
Agency whole-loan pass through	3,950			3,950
Non-agency	445		390	835
Private label-FHA/VA	813		665	1,478
Asset-backed securities	686		71	757
Total	$28,318	$3,633	$1,972	$33,923

(1) Investment that received the highest credit rating from at least one rating organization. Includes $30 million of other securities rated AA/Aa and considered eligible in accordance with the Farm Credit Administration regulations at December 31, 2009. No such securities were held at December 31, 2010.

(2) Financial institutions debt securities guaranteed by the U.S. government under the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program.

If an investment no longer meets the credit rating criteria referred to above, the investment becomes ineligible. A Bank must dispose of an investment that becomes ineligible within six months, unless the Farm Credit Administration approves, in writing, a plan that authorizes the Bank to divest the instrument over a longer period of time. The Farm Credit Administration has approved with conditions a majority of plans submitted by the Banks regarding their ineligible investments and is in the process of reviewing other plans that have been submitted. To date, the Farm Credit Administration has not required disposition of any of these securities. Bank managements do not believe that events will occur that would require them

to dispose of any of these securities. The following tables set forth ineligible securities (carried at fair value) by credit rating, which represented 3.9% and 3.6% of Federal funds and available-for-sale investments at December 31, 2010 and 2009.

December 31, 2010	Ineligible Investments										
	Number of securities	AA/Aa	A/A	BBB/Baa	BB/Ba	B/B	CCC/Caa	CC/Ca	D/C	Total	Amortized Cost
		(in millions)									
Non-agency mortgage-backed securities	83	$45	$ 54	$ 88	$ 30	$ 75	$398	$32	$ 2	$ 724	$ 860
Private label-FHA/VA mortgage-backed securities	10		95		135	93	45			368	439
Asset-backed securities	55	19		12	79	93	127	15	16	361	466
Total	148	$64	$149	$100	$244	$261	$570	$47	$18	$1,453	$1,765

December 31, 2009	Ineligible Investments									
	Number of securities	AA/Aa	A/A	BBB/Baa	BB/Ba	B/B	CCC/Caa	CC/Ca	Total	Amortized Cost
		(in millions)								
Non-agency mortgage-backed securities	74	$38	$109	$79	$ 83	$171	$259		$ 739	$ 968
Private label-FHA/VA mortgage-backed securities	3	45	6			12			63	77
Asset-backed securities	58	3	29	17	153	116	135	$13	466	645
Total	135	$86	$144	$96	$236	$299	$394	$13	$1,268	$1,690

Note: Investments are classified based on the indicated rating as the highest rating from at least one rating organization.

The types of mortgage-backed and asset-backed securities that are included in the System's investment portfolio were:

	December 31, 2010			December 31, 2009		
	Amortized Cost	Fair Value	Unrealized Gains/(Losses)	Amortized Cost	Fair Value	Unrealized Gains/(Losses)
	(in millions)					
Mortgage-backed securities:						
Agency collateralized	$18,109	$18,190	$ 81	$16,813	$16,895	$ 82
Agency whole-loan pass through	4,872	5,030	158	3,874	3,950	76
Non-agency	1,336	1,169	(167)	1,948	1,574	(374)
Private label-FHA/VA	1,551	1,375	(176)	1,786	1,541	(245)
Total mortgage-backed securities	$25,868	$25,764	$(104)	$24,421	$23,960	$(461)
Asset-backed securities:						
Home equity loans	$ 564	$ 452	$(112)	$ 848	$ 652	$(196)
Small business loans	572	579	7	483	485	2
Student loans	18	18		33	33	
Auto and equipment loans				53	53	
Total asset-backed securities	$ 1,154	$ 1,049	$(105)	$ 1,417	$ 1,223	$(194)

Credit and market conditions over the past 18 months to two years reduced the liquidity and widened credit spreads of non-agency mortgage-backed, private label-FHA/VA, and asset-backed securities reducing the fair value of this portion of our investment portfolio. However, unrealized losses on

non-agency mortgage-backed securities, private label-FHA/VA and home-equity asset-backed securities decreased $207 million, $69 million and $84 million during 2010, primarily because of more recent improvements in liquidity in the credit markets and lower interest rates. A continued deterioration in the U.S. economy and increasing levels of defaults and foreclosures on home mortgages would result in future downward adjustments to the fair value of these securities and would likely result in additional losses on other-than-temporarily impaired investments. In view of the recent economic conditions and volatility related to these types of securities, the Banks are actively monitoring the creditworthiness of these securities.

An investment is considered impaired if its fair value is less than its amortized cost. The Banks perform other-than-temporary impairment assessments on impaired securities based on evaluations of both current and future market and credit conditions. Each Bank has its own model that includes relevant assumptions and inputs such as housing prices, unemployment, delinquencies and loss severity trends. Subsequent changes in market or credit conditions could change these evaluations. An impaired available-for-sale security in an unrealized loss position is considered to be other-than-temporarily impaired if a Bank (1) intends to sell the security, (2) is more likely than not to be required to sell the security before recovering its cost, or (3) does not expect to recover the security's entire amortized cost basis even if the entity does not intend to sell. If a Bank intends to sell an impaired security or it is more likely than not to be required to sell the security before recovery of its amortized cost basis, then the impairment is other-than-temporary and the difference between amortized cost and fair value of the impaired security should be recognized currently in earnings. As of December 31, 2010 and 2009, the Banks did not intend to sell available-for-sale securities in unrealized loss positions and it is not more likely than not that they will be required to sell these securities.

A Bank also assesses whether any credit losses exist. Any shortfall between the amortized cost basis of the security and the present value of cash flows expected to be collected from the security is referred to as a "credit loss." If the Bank determines credit losses do exist, the impairment is other-than-temporary and should be separated into (1) the estimated amount relating to credit loss, and (2) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder recognized in other comprehensive income. The Banks recognized impairment losses of $90 million in earnings for 2010. In addition, the Banks recognized $33 million of impairment losses in other comprehensive income for 2010.

The fair values for floating-rate and fixed-rate mortgage-backed and asset-backed securities were:

	December 31,	
	2010	2009
	(in millions)	
Floating-rate mortgage-backed securities	$ 8,307	$ 7,147
Fixed-rate mortgage-backed securities	17,457	16,813
Total mortgage-backed securities	$25,764	$23,960
Floating-rate asset-backed securities	$ 66	$ 109
Fixed-rate asset-backed securities	983	1,114
Total asset-backed securities	$ 1,049	$ 1,223

Mission-Related and Other Investments

The Farm Credit Act states that the mission of the System is "to provide for an adequate and flexible flow of money into rural areas." Congress also recognized the "growing need for credit in rural areas" and declared that the System be designed to accomplish the objective of improving the income and well being of America's farmers and ranchers. To further the System's mission to serve rural America, the System has initiated mission-related programs and other mission-related investments approved by the Farm Credit Administration. These investments are not included in the Banks' liquidity calculations and are not covered by the eligible investment limitation discussed above. However, limitations on mission-related investments are determined by the Farm Credit Administration.

Mortgage-backed securities issued by Farmer Mac are also considered other investments and are excluded from the eligible investment limitation and the Banks' liquidity calculations. These Farmer Mac securities are backed by loans originated by Associations and previously held by the Associations under Farmer Mac standby purchase commitments.

Mission-related and other investments outstanding that are classified as held-to-maturity (carried at amortized cost) are as follows:

	December 31, 2010	December 31, 2009
	(in millions)	
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 239	$ 210
Mortgage-backed securities:		
Rural housing*	1,986	1,237
Farmer Mac	810	764
Other	33	
Total mortgage-backed securities	2,829	2,001
Asset-backed securities**	618	1,519
Total	$3,686	$3,730

* All securities have triple-A credit ratings from Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings.

** Primarily Small Business Administration government-guaranteed pooled investments.

Mission-related and other investments outstanding that are classified as available-for-sale (carried at fair value) are as follows:

	December 31, 2010	December 31, 2009
	(in millions)	
Mortgage-backed securities:		
Farmer Mac	$565	$492
Other	1	10
Total mortgage-backed securities	566	502
Asset-backed securities*		76
Total	$566	$578

* Primarily Small Business Administration government-guaranteed pooled investments

Liquidity Standard

The Banks have jointly developed and adopted a Common Minimum Liquidity Standard. This Standard is designed to maintain and assure adequate liquidity to meet the business and financial needs of each Bank and the System. The Standard requires each Bank to maintain a minimum of 90 days of liquidity on a continuous basis, assuming no access to the capital markets. The number of days of liquidity is calculated by comparing maturing Systemwide Debt Securities and other bonds with the total amount of cash, investments, and other liquid assets maintained by that Bank. For purposes of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale. The liquid assets include only the eligible investments of the Banks and are valued as follows:

- multiply cash and overnight investments by 100%,
- multiply the market value of money market instruments and floating rate debt securities, whose current coupon rates are below their contractual rate, by 95%,
- multiply the market value of fixed rate debt securities and floating rate debt securities, whose coupon rates are at their contractual cap rate, by 90%,
- multiply individual securities in diversified investment funds by the discounts that would apply to the securities if held separately, and
- multiply new debt issued but not settled by 100%.

At December 31, 2010, all Banks exceeded the minimum 90 days of liquidity. The System's liquidity position was 173 days at December 31, 2010, as compared with 178 days at December 31, 2009. (See Note 22 for each Bank's liquidity position at December 31, 2010 and 2009.)

In response to recent financial and market turmoil and to further ensure adequate liquidity in the future, the Banks worked together and agreed to improve the quality of liquidity by establishing a framework under which each Bank should, at all times, be able to cover 15 days of maturing debt with cash, cash equivalents and/or Treasury securities with maturities of less than three years. The Banks agreed that the next 30 days of liquidity would come from investments in excess of those that qualified under the 15-day bucket, investments guaranteed by the full faith and credit of the U.S. government, and top-rated commercial paper and Fed funds that mature in 45 days or less. At December 31, 2010, all Banks had adopted and were in compliance with this framework. These more highly liquid securities discussed above grew to 20% of the eligible investment portfolio as of December 31, 2010 from 16% at December 31, 2009.

Contractual Obligations

We enter into contractual obligations in the ordinary course of business, including debt issuances for the funding of our business operations. Systemwide Debt Securities are the joint and several obligations of the Banks. Payments of principal and interest to the

holders of Systemwide Debt Securities are insured by amounts held in the Insurance Fund as described in Note 7 to the accompanying combined financial statements. Certain other bonds issued directly by individual Banks are the obligations solely of the issuing Bank. In addition, we enter into derivative transactions with counterparties that create contractual obligations. See "Derivative Products" for additional information. Substantially all proceeds of debt issuances were used to repay maturing debt, as well as to fund growth in loans and investment securities. Issuance, maturity, and retirement activity of Systemwide Debt Securities for the past two years was:

	Systemwide Bonds		Systemwide Medium-Term Notes		Systemwide Discount Notes		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	(in millions)							
Balance, beginning of year	$ 165,122	$ 161,436	$ 570	$ 824	$ 11,604	$ 16,105	$ 177,296	$ 178,365
Issuances	118,394	115,893			415,552	407,180	533,946	523,073
Maturities/retirements	(114,364)	(112,207)	(143)	(254)	(407,962)	(411,681)	(522,469)	(524,142)
Balance, end of year	$ 169,152	$ 165,122	$ 427	$ 570	$ 19,194	$ 11,604	$ 188,773	$ 177,296

Weighted average interest rates and weighted average maturities for 2010 and 2009 were:

	Systemwide Bonds		Systemwide Medium-Term Notes		Systemwide Discount Notes		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
At December 31:								
Average interest rate	1.61%	1.92%	5.49%	5.90%	0.24%	0.31%	1.48%	1.83%
Average remaining maturity	3.9 years	3.3 years	7.7 years	6.7 years	3.7 months	3.0 months	3.5 years	3.1 years
Issuances during the year:								
Average interest rate	1.45%	1.78%			0.13%	0.11%	0.43%	0.48%
Average maturity at issuance	3.8 years	3.3 years			14 days	10 days	10.4 months	9.2 months

The following table presents principal cash flows and related weighted average interest rates by contractual maturity dates for Systemwide Debt Securities.

	Fixed Rate	Average Interest Rate	Floating Rate	Average Interest Rate	Total
			(in millions)		
2011	$ 33,391	1.04%	$34,676	0.35%	$ 68,067
2012	14,794	1.70	27,963	0.38	42,757
2013	13,619	2.03	8,594	0.48	22,213
2014	10,001	2.38	3,084	0.94	13,085
2015	9,227	2.78	3,237	0.52	12,464
2016 and thereafter	27,392	4.01	2,795	0.12	30,187
Total	$108,424	2.28	$80,349	0.40	$188,773
Fair value at December 31, 2010	$109,578		$80,765		$190,343

The Farm Credit Act and Farm Credit Administration regulations require, as a condition for a Bank's participation in the issuance of Systemwide Debt Securities, that the Bank maintain specified eligible assets, referred to in the Farm Credit Act as "collateral," at least equal in value to the total amount of the debt securities outstanding for which it is primarily liable. (See "Federal Regulation and Supervision of the Farm Credit System — Bank Collateral Requirements" for a description of eligible assets.) The collateral requirement does not provide holders of Systemwide Debt Securities with a security interest

in any assets of the Banks. At December 31, 2010, all Banks reported compliance with the collateral requirement. (See "FCA Capital Requirements" and Note 9 to the accompanying combined financial statements.)

Each Bank determines its participation in each issue of Systemwide Debt Securities based on its funding and operating requirements, subject to: (1) the availability of eligible collateral (as described above), (2) compliance with the conditions of participation as prescribed in the Market Access Agreement, (3) determination by the Funding Corporation of the amounts, maturities, rates of interest and terms of each issuance, and (4) Farm Credit Administration approval. As of December 31, 2010, no Bank was limited or precluded from participation in issuances of Systemwide Debt Securities. As required by the Farm Credit Act, Systemwide Debt Securities are issued pursuant to authorizing resolutions adopted by the board of directors of each Bank. Under the Market Access Agreement, each Bank's ability to withdraw its authorizing resolution is restricted and, in certain circumstances, eliminated.

Issuance, maturity, and retirement activity of other bonds for the past two years was:

	Other Bonds	
	2010	2009
	(in millions)	
Balance, beginning of year	$ 1,062	$ 1,404
Issuances	46,640	61,461
Maturities/retirements	(46,900)	(61,803)
Balance, end of year	$ 802	$ 1,062

Weighted average interest rates and weighted average maturities of other bonds for 2010 and 2009 were:

	Other Bonds	
	2010	2009
At December 31:		
Average interest rate	0.12%	0.14%
Average remaining maturity	1 day	1 day
Issuances during the year:		
Average interest rate	0.09%	0.09%
Average maturity at issuance	1 day	1 day

Capital Adequacy and the Ability to Repay Systemwide Debt Securities

System Capitalization

The changes in capital for the year ended December 31, 2010 were:

	Combined Banks	Combined Associations	Capital Insurance Fund	Combination Entries	System Combined
			(in millions)		
Balance at December 31, 2009	$10,829	$20,290	$3,289	$(4,449)	$29,959
Net income	1,895	2,426	142	(968)	3,495
Change in accumulated other comprehensive loss	396			(9)	387
Preferred stock issued	297	372			669
Preferred stock retired	(18)	(315)			(333)
Capital stock and participation certificates issued	93	83		(93)	83
Capital stock and participation certificates and surplus retired	(207)	(69)		163	(113)
Protected borrower stock retired		(1)		1	
Additional paid-in-capital and other		194			194
Transfer of surplus related to Association mergers		(203)			(203)
Insurance Corporation distributions to System institutions			(205)	205	
Patronage and dividends	(758)	(604)		631	(731)
Preferred stock dividends	(151)	(5)			(156)
Balance at December 31, 2010	$12,376	$22,168	$3,226	$(4,519)	$33,251

Note: System combined capital reflected eliminations of approximately $3.5 billion of Bank equities held by Associations as of December 31, 2010 and 2009. System combined capital also reflected net eliminations of transactions between System entities. (See Notes 13 and 22 to the accompanying combined financial statements.)

Capital serves to support asset growth and provides protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services. We believe a sound capital position is critical to providing protection to investors in Systemwide Debt Securities and our long-term financial success.

Over the past several years, we have built capital through net income earned and retained. Capital accumulated through earnings has been partially offset by cash distributions to shareholders. Surplus of $27.136 billion is the most significant component of capital. Surplus as a percentage of capital was 81.6% and 82.6% at December 31, 2010 and 2009. Capital as a percentage of assets increased to 14.5% at December 31, 2010 from 13.9% at December 31, 2009 due principally to the moderate growth of loans and investments and to an increase in earnings retained. Accumulated other comprehensive loss, net of tax, at December 31, 2010 and 2009 was comprised of the following components:

	2010	2009
	(in millions)	
Unrealized gains (losses) on investments available-for-sale, net	$ 24	$ (406)
Other-than-temporary impairment on investments available-for-sale	(179)	(210)
Unrealized (losses) gains on cash flow hedges, net	(39)	23
Pension and other benefit plans	(977)	(965)
	$(1,171)	$(1,558)

In third quarter 2010, the Farm Credit Bank of Texas issued $300 million of 10% non-cumulative subordinated perpetual preferred stock, representing 300,000 shares at $1,000 per share par value. Dividends, if declared by the Bank's board of directors at its sole discretion, are non-cumulative and are payable semi-annually in arrears on the 15th day of June and December each year, beginning with December 2010.

Interdependency of the Banks and the Associations

Understanding the System's structure and the interdependent nature of the Banks and the Associations is critical in understanding our capital adequacy.

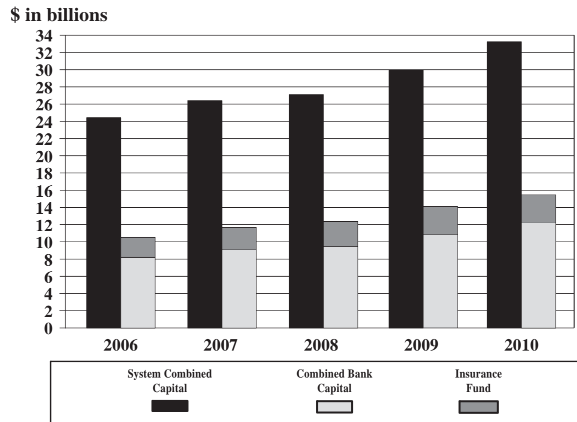
As previously discussed, each Bank is primarily liable for the repayment of Systemwide Debt Securities issued on its behalf, as well as being liable for Systemwide Debt Securities issued on behalf of the other Banks. The Farm Credit Banks, through the issuance of Systemwide Debt Securities, generally finance the wholesale loans to their affiliated Associations who lend the proceeds to their customers. CoBank, as an Agricultural Credit Bank, makes loans to cooperatives, rural utilities, and other eligible borrowers, as well as Associations. Each Bank's ability to repay Systemwide Debt Securities is due, in large part, to each of its Association's ability to repay its loan from the Bank. As a result, the Banks continually monitor the risk-bearing capabilities of each affiliated Association through various mechanisms, including testing the reliability of each Association's credit classifications and prior-approval of certain Association loan transactions. Capital, allowance for loan losses and earnings at the Association level also reduce the credit exposure that each Bank has with respect to the loans between the Bank and its affiliated Associations.

Since an Association's ability to obtain funds from sources other than its affiliated Bank is significantly limited, the financial well-being of the Bank and its ability to continue to provide funds is very important to the Association. In addition to the equity the Associations are required to purchase in connection with their direct loans from their affiliated Bank, under each Bank's bylaws, the Bank is authorized, under certain circumstances, to require its affiliated Associations and certain other equity holders to purchase additional Bank equity subject to certain limits or conditions. Further, the Banks generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced operating and financing policies for its District. (See Notes 13 and 22 to the accompanying combined financial statements for further discussion of Bank and Association capital.)

Notwithstanding the foregoing, only the Banks, and not the Associations, are jointly and severally liable for the repayment of Systemwide Debt Securities. Other than as described above, and subject to various regulatory and contractual conditions and limitations, the Banks do not have direct access to the capital of their affiliated Associations. Moreover, capital in one Association is not available to address capital needs of another Association or of a non-affiliated Bank.

Bank Capital and Insurance Fund

System Combined Capital, Combined Bank Capital and Insurance Fund as of December 31,



Combined Bank-only information is considered meaningful because only the Banks are jointly and severally liable for payment of principal and interest on Systemwide Debt Securities. Amounts in the Insurance Fund are included in the System's combined financial statements because, under the Farm Credit Act, before joint and several liability can be invoked, available amounts in the Insurance Fund would be used to make principal and interest payments on Systemwide Debt Securities. Combined Bank capital and the Insurance Fund increased $1.484 billion since December 31, 2009 to $15.602 billion at December 31, 2010. Combined Bank capital as a percentage of combined Bank assets increased to 6.0% at December 31, 2010 from 5.6% at December 31, 2009 due to increases in net income earned and retained while growth in the Banks' loan volume slowed during 2010. The Banks' capital as a percentage of assets ranged from 5.1% to 8.2% at December 31, 2010. (See Note 22 to the accompanying combined financial statements.) The Banks have implemented and continue to evaluate capital and asset management strategies to provide additional capacity and ensure the demands for future asset growth will be met.

Combined Bank-only net income increased $451 million to $1.895 billion for 2010, as compared with $1.444 billion for 2009, largely as a result of increases in net interest income and noninterest income. The combined Bank-only net income reflects the earnings from Banks' wholesale loans to Associations, retail loans principally consisting of CoBank's domestic loans to cooperatives and other eligible borrowers and loans to finance international transactions, and investments. The Banks' wholesale loans to Associations represent a majority of the assets on the combined Bank-only balance sheet. These loans carry less risk than retail loans because the Associations operate under General Financing Agreements with their affiliated Banks and a regulatory regime that requires maintaining certain minimum capital standards, adequate reserves, and prudent underwriting standards. Based on the lower risk of loans to the Associations, the Banks typically operate with more leverage and lower earnings than would be expected from a retail bank.

One of the mechanisms used by the Banks to evaluate the credit risk of its wholesale loan portfolio is the Farm Credit Administration's Uniform Loan Classification System. The following table reflects the loan classifications of the Associations:

	December 31, 2010		December 31, 2009	
Uniform Loan Classification System	Number of Associations	Direct Note	Number of Associations	Direct Note
Acceptable	71	$103,730	76	$ 97,934
OAEM	10	4,344	10	7,090
Substandard (viable)	5	1,401	3	742
Substandard (non-viable), doubtful and loss	0	0	0	0
Total	86	$109,475	89	$105,766

Note: Effective January 1, 2011, two Associations, one classified OAEM and one substandard, merged with and into one Association classified OAEM, reducing the number of Associations to 84.

Accumulated other comprehensive loss at the combined Bank-only level decreased $396 million to $253 million for 2010, as a result of a decrease of $486 million in net unrealized losses on available-for-sale investments held by the Banks. As previously discussed, the market value of available-for-sale investments securities was positively impacted by increased liquidity and a lower interest rate environment during 2010.

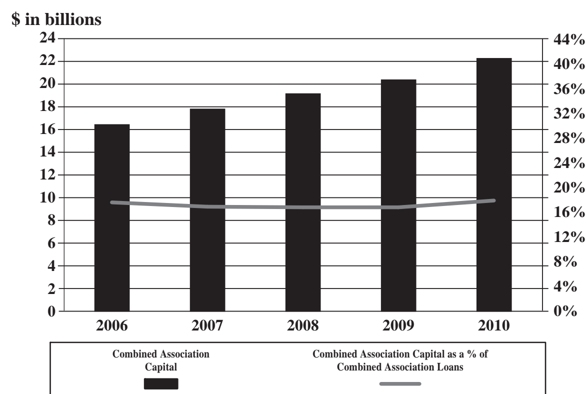
Over the past five years, a substantial portion of income earned at the Bank level has been passed on to the Associations through patronage distributions.

Bank capital increased $4.165 billion since December 31, 2006 and $1.547 billion since December 31, 2009 to $12.376 billion at December 31, 2010. The Banks recorded net income of $1.895 billion in 2010, retaining $986 million after patronage distributions and preferred stock dividends were paid.

For combining Bank-only information, see Note 22 to the accompanying combined financial statements.

Association Capital

Combined Association Capital and Combined Association Capital as a Percentage of Combined Association Loans as of December 31,



Combined Association capital increased $5.807 billion since December 31, 2006 and $1.878 billion since December 31, 2009 to $22.168 billion at December 31, 2010. The growth in Association capital during 2010 resulted primarily from income earned and retained. Combined Associations recorded $2.426 billion of net income in 2010, retaining $1.822 billion after patronage distributions, as compared with $1.613 billion of net income in 2009 with $1.190 billion retained after patronage distributions.

Combined Association capital as a percentage of combined Association loans increased to 17.8% at December 31, 2010 from 17.1% at December 31, 2009. Individual Association capital as a percentage of risk-adjusted assets ranged from 11.3% to 28.4% at December 31, 2010, as compared with 9.1% to 27.6% at December 31, 2009. (See "FCA Capital Requirements" for additional information.)

Economic Capital

The System's capital management framework is intended to ensure there is sufficient capital to support the underlying risks of its business activities, exceed all regulatory capital requirements, and achieve certain capital adequacy objectives. The Banks have implemented economic capital software, methodologies, and assumptions to quantify the capital requirements related to the Bank's primary areas of risk. Each Bank periodically quantifies its economic capital requirements, based on the credit risk, interest rate risk, operational risk, and market risk inherent in its operations. Due to the evolving nature of economic capital, we anticipate the methodologies and assumptions will continue to be refined.

Economic capital is a measure of risk and is defined as the amount of capital required to absorb potential unexpected losses resulting from extremely severe events over a one-year time period.

- "Unexpected losses" are the difference between potential extremely severe losses and the expected (average) loss over a one-year time period.
- The amount of economic capital required is based on each Bank's risk profile and a targeted solvency standard. For economic capital modeling purposes, each Bank has targeted an "AA" solvency standard, which equates to a 99.97% confidence level. This means the likelihood of incurring losses in excess of the required economic capital amount is estimated to be similar to the likelihood of an "AA" rated bond defaulting (0.03% probability).

Below is a brief description of the four types of risk to which the Banks attribute economic capital:

- Credit Risk — The risk that borrowers or counterparties default on their financial obligations.
- Interest Rate Risk — The risk generated from changes in interest rates.
- Operational Risk — The risk of loss resulting from inadequate or failed internal processes or systems, human factors, or changes in the competitive environment.
- Market and Other Risk — Exposures related to asset residual values affiliated with leasing activity and other areas of risk.

These risks are measured and aggregated by each Bank to estimate the exposure to potential extremely

severe events and any impact to its level or composition of capital.

The Banks utilize economic capital software, including similar conceptual designs and modeling methodologies. Methodologies and assumptions used in measuring economic capital were jointly developed by Bank risk management and financial management personnel, in consultation with industry experts. The Bank modeling considers the economic capital requirements of its affiliated Associations, through the evaluation of the Associations' retail credit risk, operational risk, and interest rate risk. An economic capital shortfall (which is the difference between available capital and required economic capital) at any Association is included in the related Bank's economic capital requirements. The Bank models are calibrated to achieve a standard of default protection equivalent to an "AA" rated institution. At December 31, 2010 and 2009, each Bank's capital position exceeded its calculated economic capital requirements.

Credit Risk Capital

The primary component of the economic capital requirement is credit risk capital. Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolios, and derivative counterparty credit exposures.

Credit risk capital requirements are based on the risk profile of the borrower or counterparty, repayment sources (including non-farm income), the nature of underlying collateral, and other support, given current events and conditions. Our credit risk ratings process uses a two-dimensional loan rating structure, incorporating a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default, as described in the "Risk Management — Credit Risk Management" section of Management's Discussion and Analysis.

In assigning credit risk capital, the Bank's economic capital models consider retail borrower probability of default, loss given default, and portfolio concentrations. Other principal drivers of credit risk that differentiate capital allocation include exposure at default, asset maturity, and asset and inter-commodity correlations. The Banks have developed standards for probability of borrower default and loss given default, based on Moody's Investor Service's external benchmarks. Historical USDA data was used to determine asset and inter-commodity correlations.

Interest Rate Risk Capital

Another significant component of the economic capital requirement is interest rate risk capital. Interest rate risk is the risk of loss of future earnings or long-term value that may result from changes in interest rates. The adverse change in interest rates may be in the form of yield curve risk, repricing risk, option risk or basis risk, as described in the "Risk Management — Interest Rate Risk Management" section of Management's Discussion and Analysis.

The amount of capital attributed by the Banks for interest rate risk is based on potential changes in Bank market value of equity, calculated under randomly generated interest rate scenarios. All Banks utilize widely accepted, third party models to quantify their interest rate risk and related risk capital requirements.

Operational Risk Capital

Another component of the economic capital requirement is operational risk capital. Operational risk for the Banks results primarily from event risk and/or business risk. Event risk is the risk of loss resulting from inadequate or failed internal processes or systems, human factors, and external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. Business risk is the risk of loss due to changes in the competitive environment or events that damage the franchise or operating economics of the business.

Each Bank's approach to quantifying operational risk capital is based on the capital of non-financial companies with similar business risks. These non-financial companies hold capital primarily for operational risk. Their level of capital and credit rating yields an inferred estimate of the level of capital to be held for operational risk. Capital as a percentage of non-interest expense is the primary methodology used in determining operational risk capital.

Market and Other Risk Capital

For certain Banks, market risk is a component of the economic capital requirement and arises primarily from the volatility in the residual value of leased assets at the maturity of lease contracts. Other areas of risk in which the Banks may have exposure are structural, liquidity, and political risk. Capital is not specifically

attributed for these risks. Some of the excess capital of the Banks is held for "Other Risks."

Capital Adequacy Plans

Each System institution also maintains a capital adequacy plan that addresses its capital targets in relation to its risks. The capital adequacy plan assesses the capital level and composition necessary to assure financial viability and to provide for growth. The plans are updated at least annually and are approved by the institution's board of directors. At a minimum, the plans consider the following factors in determining optimal capital levels:

- asset quality and the adequacy of the allowance for loan losses to absorb potential loss within the loan portfolio,
- quality and quantity of earnings,
- sufficiency of liquid funds,
- capability of management and the quality of operating policies, procedures, and internal controls,
- needs of an institution's customer base, and
- other risk-oriented activities, such as funding and interest rate risks, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities and other conditions warranting additional capital.

In addition, as discussed below, each Bank has a regulatory minimum for the net collateral ratio of 103%. Under the Market Access Agreement, the minimum established is 104%. Because the minimum net collateral ratio generally would be breached before any of the other minimum capital requirements, the Banks closely monitor the level of the net collateral ratio.

FCA Capital Requirements

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. The Farm Credit Administration's capital regulations require that the Banks and Associations achieve and maintain permanent capital of at least seven percent of risk-adjusted assets. In addition, Farm Credit Administration regulations require that: (1) all System institutions achieve and maintain a total surplus ratio of at least seven percent of risk-adjusted assets and a core surplus ratio of at least three and one-half percent of risk-adjusted assets and (2) all Banks achieve and maintain a net collateral ratio of at least 103%. At December 31, 2010, all System institutions maintained ratios in excess of these standards, except for two Associations. As follows:

System Institutions	**Permanent Capital Ratio**	**Total Surplus Ratio**	**Core Surplus Ratio*** **	**Net Collateral Ratio**
Banks*	14.3% - 22.0%	14.0% - 21.2%	8.4% - 13.8%	105.6% - 108.0%
Associations	11.3% - 28.4%	11.0% - 28.0%	2.9%** - 24.4%	Not Applicable
Regulatory minimum required	7.0%	7.0%	3.5%	103%****

* See Note 22 for each Bank's permanent capital ratio and net collateral ratio at December 31, 2010 and 2009.

** Two Associations with assets of less than $450 million and $300 million had core surplus ratios of 3.1% and 2.9%. All other Associations had a core surplus ratio in excess of 10.3%.

*** The Farm Credit Administration determined that one Bank should include a significant portion of its capital stock and participation certificates in its core surplus, subject to certain conditions, on a temporary basis that would likely continue until the earlier of December 31, 2012 or when the Farm Credit Administration promulgates a final capital rule that would be inconsistent with this treatment. As part of this determination, the Farm Credit Administration also imposed a requirement that the core surplus ratio be calculated excluding capital stock and participation certificates and established a 3.0% minimum for this ratio.

**** In connection with preferred stock and subordinated debt offerings, the Banks are required by the Farm Credit Administration to maintain a minimum net collateral ratio of 104%.

Insurance Fund

An additional layer of protection for Systemwide Debt Security holders is the Insurance Fund that insures the timely payment of principal and interest on these securities. The primary sources of funds for the Insurance Fund are:

- premiums paid by the Banks, the cost of which may be passed on to the Associations, and
- earnings on assets in the Insurance Fund.

The Insurance Corporation's primary purpose is to insure the timely payment of principal and interest

on Systemwide Debt Securities. In the event a Bank is unable to timely pay Systemwide Debt Securities for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent necessary to insure the timely payment of principal and interest on the debt obligations. However, the Insurance Corporation also has certain discretionary authorities to assist System institutions under specified circumstances, and as a result, there is no assurance that amounts in the Insurance Fund will be available and sufficient to fund the timely payment of principal and interest on Systemwide Debt Securities in the event a Bank is unable to make timely payment.

Due to the restricted use of funds in the Insurance Fund, it has been included as a restricted asset and as restricted capital in the System's combined financial statements. As of December 31, 2010, the assets in the Insurance Fund totaled $3.226 billion. The aggregate amounts of additions to the Insurance Fund and the related transfers from surplus to restricted capital were $142 million in 2010, $374 million in 2009 and $316 million in 2008. (See Note 7 to the accompanying combined financial statements and the Supplemental Combining Information on pages F-58 through F-60 for combining statements of condition and income that illustrate the impact of including the Insurance Fund in the System's combined financial statements.)

Premiums are due until the assets in the Insurance Fund for which no specific use has been identified or designated reach the "secure base amount." The Farm Credit Act, as amended by the 2008 Farm Bill, requires the secure base amount to be maintained at 2% of aggregate outstanding insured debt (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of aggregate outstanding insured debt as the Insurance Corporation in its sole discretion determines to be actuarially sound. Insurance premiums are established by the Insurance Corporation with the objective of maintaining the secure base amount at the level required by the Farm Credit Act. At December 31, 2010, the assets in the Insurance Fund were slightly below the secure base amount. As determined by the Insurance Corporation, the assets in the Insurance Fund for which no specific use has been identified or designated were 1.99% at December 31, 2010, 2.11% at December 31, 2009 and 1.77% at December 31, 2008 of aggregate insured obligations. With the Allocated Insurance Reserves Accounts, the Insurance Fund was 2.14% and 1.80% of aggregate insured obligations at December 31, 2009 and 2008. No amounts were allocated as of December 31, 2010.

As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to the System institutions. As of December 31, 2009, the assets in the Insurance Fund were estimated to be $210 million in excess of the secure base amount. As a result, the Insurance Corporation distributed $205 million to System institutions in early 2010.

In January 2011, the Insurance Corporation reviewed the level of the secure base amount and determined that it would assess premiums of six basis points on adjusted insured debt and continue the assessment of an additional 10 basis points on nonaccrual loans and other-than-temporarily impaired investments. This determination was based on the moderate growth in adjusted insured debt during the fourth quarter of 2010 and the projection for moderate growth to continue in 2011. For an additional discussion on the Insurance Fund and the Allocated Insurance Reserves Accounts, see Note 7 to the accompanying combined financial statements.

Joint and Several Liability

The provisions of joint and several liability of the Banks with respect to Systemwide Debt Securities would be invoked if the available amounts in the Insurance Fund were exhausted. Once joint and several liability is triggered, the Farm Credit Administration is required to make "calls" to satisfy the liability first on all non-defaulting Banks in the proportion that each non-defaulting Bank's available collateral (collateral in excess of the aggregate of the Bank's collateralized obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting Bank's remaining assets. On making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit Administration is required to appoint the Insurance Corporation as the receiver for the defaulting Bank, and the receiver must expeditiously liquidate the Bank.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors

relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. Each Bank's and Association's board of directors is required, by regulation, to adopt an internal control policy that provides adequate direction to the institution in establishing effective control over and accountability for operations, programs and resources. The policy must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess its assets,
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation,
- adoption of asset quality classification standards,
- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In general, System institutions address operational risk through the organization's internal framework under the supervision of the internal auditors. Exposure to operational risk is typically identified with the assistance of senior management and internal audit plans developed with higher risk areas receiving more review.

Political Risk Management

System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agricultural and rural America. The System and its borrowers may be significantly affected by federal legislation that affects the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government.

We manage political risk by actively supporting The Farm Credit Council, which is a full-service, federated trade association located in Washington, D.C. representing the System before Congress, the Executive Branch, and others. The Council provides the mechanism for "grassroots" involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. In addition, each District has a District Farm Credit Council that is a regional trade association dedicated to promoting the interests of cooperative farm lending institutions and their borrowers in the District.

Regulatory Matters

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

During the fourth quarter of 2010, the Farm Credit Administration entered into a written agreement with one additional Association. As of December 31, 2010, the Farm Credit Administration had written agreements with five Associations whose assets totaled $1.622 billion in the aggregate at December 31, 2010. The written agreements require the Associations to take corrective actions with respect to certain areas of their operations, including asset quality, capital and portfolio management.

Recently Adopted or Issued Accounting Pronouncements

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily

delays the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring will be coordinated and is anticipated to be effective for periods ending after June 15, 2011.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance is intended to provide 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 are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, 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 disaggregated 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 are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not impact the System's financial condition or results of operations, but did result in significant additional disclosures.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust 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 are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard will have no impact on the System's financial condition and results of operations but will result in additional disclosures.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective as of January 1, 2010 and for interim and annual reporting periods thereafter. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. System institutions reviewed their loan participation agreements to ensure that participations would meet the requirements for sales treatment and not be required to be consolidated. The impact of adoption on January 1, 2010 was immaterial to the System's financial condition and results of operations.

INDEX TO COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTAL COMBINING AND FINANCIAL INFORMATION

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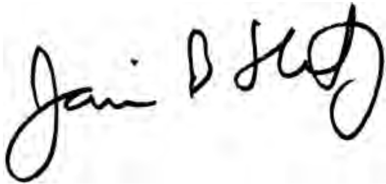
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The System'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 System's combined 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 System's principal executives and principal financial officers, or persons performing similar functions, and effected by the System's boards of directors, managements and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the System's combined financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and 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 System, (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 of the System are being made only in accordance with authorizations of managements and directors of the System, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the System's assets that could have a material effect on the System's combined financial statements.

The Funding Corporation's management has completed an assessment of the effectiveness of the System's internal control over financial reporting as of December 31, 2010. In making the assessment, Funding Corporation's 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 Funding Corporation concluded that as of December 31, 2010, the System's internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Funding Corporation determined that there were no material weaknesses in the System's internal control over financial reporting as of December 31, 2010.

The System's internal control over financial reporting as of December 31, 2010 has been audited by PricewaterhouseCoopers, LLP, an independent auditor, as stated in their accompanying report on page F-3 which expresses an unqualified opinion on the effectiveness of the System's internal control over financial reporting as of December 31, 2010.



Jamie B. Stewart, Jr.
President and CEO
Funding Corporation

H. John Marsh, Jr.
Managing Director — Financial
Management Division
Funding Corporation

REPORT OF INDEPENDENT AUDITORS

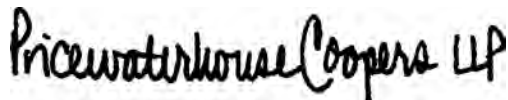
TO THE BOARDS OF DIRECTORS
OF THE FARM CREDIT SYSTEM:

In our opinion, the accompanying combined statements of condition and the related combined statements of income, of changes in capital and of cash flows appearing on pages F-4 through F-57 of this Annual Information Statement present fairly, in all material respects, the financial position of the Farm Credit System (the System) at December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the System maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The System's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Report on Internal Control over Financial Reporting appearing on page F-2 of this Annual Information Statement. Our responsibility is to express opinions on these financial statements and on the System's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with generally accepted auditing standards established by the Auditing Standards Board (United States) and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Our audits were conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplemental combining information on pages F-58 through F-65 of this Annual Information Statement is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's 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 company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



PRICEWATERHOUSECOOPERS LLP

New York, NY
March 1, 2011

FARM CREDIT SYSTEM

COMBINED STATEMENT OF CONDITION
(in millions)

	December 31, 2010	December 31, 2009
A S S E T S		
Cash	$ 4,317	$ 2,722
Federal funds sold and securities purchased under resale agreements	678	880
Investments (Note 3)		
Available-for-sale (amortized cost of $37,169 and $34,938, respectively)	37,035	34,311
Mission-related and other held-to-maturity (fair value of $3,751 and $3,756, respectively)	3,686	3,730
Mission-related and other available-for-sale (amortized cost of $563 and $568, respectively)	566	578
Loans (Note 4)	175,351	164,830
Less: allowance for loan losses (Note 4)	(1,447)	(1,359)
Net loans	173,904	163,471
Accrued interest receivable	1,881	1,952
Premises and equipment (Note 5)	664	634
Other assets (Notes 6, 14, 15 and 16)	4,016	3,890
Restricted assets (Note 7)	3,226	3,289
Total assets	$229,973	$215,457
L I A B I L I T I E S A N D C A P I T A L		
Systemwide Debt Securities		
Due within one year:		
Systemwide discount notes	$ 19,194	$ 11,604
Systemwide bonds and medium-term notes	48,873	50,146
	68,067	61,750
Due after one year:		
Systemwide bonds and medium-term notes	120,706	115,546
Total Systemwide Debt Securities (Notes 8 and 9)	188,773	177,296
Subordinated debt (Note 10)	1,650	1,550
Other bonds (Note 9)	802	1,062
Notes payable and other interest-bearing liabilities	406	403
Accrued interest payable	833	1,002
Other liabilities (Notes 6, 14, 15 and 16)	4,033	3,960
Mandatorily redeemable preferred stock (Note 11)	225	225
Total liabilities	196,722	185,498
Commitments and contingencies (Notes 4, 16 and 20)		
Capital (Note 13)		
Preferred stock	2,125	1,786
Capital stock and participation certificates	1,542	1,504
Additional paid-in-capital (Note 12)	393	206
Restricted capital (Note 7)	3,226	3,289
Accumulated other comprehensive loss, net of tax (Notes 3, 14 and 18)	(1,171)	(1,558)
Allocated surplus	1,953	1,736
Unallocated surplus	25,183	22,996
Total capital	33,251	29,959
Total liabilities and capital	$229,973	$215,457

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

FARM CREDIT SYSTEM

COMBINED STATEMENT OF INCOME
(in millions)

	For the Year Ended December 31,		
	2010	**2009**	**2008**
Interest income			
Investments, Federal funds sold and securities purchased under resale agreements	$ 814	$1,018	$ 1,554
Loans	8,036	8,095	9,268
Total interest income	8,850	9,113	10,822
Interest expense			
Systemwide bonds and medium-term notes	2,799	3,488	5,598
Systemwide discount notes	36	130	421
Subordinated debt	102	73	48
Other interest-bearing liabilities	23	30	53
Total interest expense	2,960	3,721	6,120
Net interest income	5,890	5,392	4,702
Provision for loan losses	(667)	(925)	(408)
Net interest income after provision for loan losses	5,223	4,467	4,294
Noninterest income			
Loan-related fee income	238	213	148
Fees for financially related services	220	229	265
Income earned on Insurance Fund assets (Note 7)	66	57	76
Mineral income	63	30	46
Operating lease income	43	41	44
Total other-than-temporary impairment losses (Note 3)	(123)	(361)	(82)
Non-credit related portion of loss recognized in other comprehensive income	33	226	
Net other-than-temporary impairment losses	(90)	(135)	(82)
Gains on sales of investments and other assets, net	11	18	11
Losses on extinguishment of debt	(72)	(58)	(57)
Net gains (losses) on derivative and other transactions	4	2	(2)
Other noninterest income	52	50	53
Total noninterest income	535	447	502
Noninterest expense			
Salaries and employee benefits (Note 14)	1,278	1,180	1,068
Occupancy and equipment expense	161	157	151
Purchased services	133	120	117
Other operating expense	417	371	379
Losses on other property owned	48	39	5
Other noninterest expense	8	2	7
Total noninterest expense	2,045	1,869	1,727
Income before income taxes	3,713	3,045	3,069
Provision for income taxes (Note 15)	(218)	(195)	(153)
Net income	$3,495	$2,850	$ 2,916

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

FARM CREDIT SYSTEM

COMBINED STATEMENT OF CHANGES IN CAPITAL
(in millions)

	Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Restricted Capital Farm Credit Insurance Fund	Accumulated Other Comprehensive Income (Loss)	Allocated Surplus	Unallocated Surplus	Total Capital
Balance at December 31, 2007	$1,525	$1,357		$2,599	$ (543)	$1,437	$20,044	$26,419
Adjustment to beginning balance due to pension accounting change							(15)	(15)
Balance at January 1, 2008	1,525	1,357		2,599	(543)	1,437	20,029	26,404
Comprehensive income								
Net income							2,916	2,916
Change in unrealized losses on investments available-for-sale, including reclassification adjustments of $79					(889)			(889)
Change in unrealized losses on cash flow hedges, including reclassification adjustments of $12					(38)			(38)
Change in pension and postretirement benefit plans, including reclassification adjustments of $7					(738)			(738)
Income tax related to other comprehensive income					75			75
Total comprehensive income (loss)					(1,590)		2,916	1,326
Transfer of Insurance Fund premiums and other income from surplus to restricted capital — Farm Credit Insurance Fund				316			(316)	
Preferred stock issued by Banks	200						(2)	198
Preferred stock issued, net by Associations	46							46
Preferred stock dividends							(112)	(112)
Capital stock and participation certificates issued		82						82
Capital stock and participation certificates retired		(110)						(110)
Patronage:								
Cash						(121)	(589)	(710)
Capital stock, participation certificates and surplus allocations		94				275	(369)	
Balance at December 31, 2008	1,771	1,423		2,915	(2,133)	1,591	21,557	27,124
Cumulative effect adjustment for adoption of accounting for impairments of investments					(39)		39	
Adjusted balance	1,771	1,423		2,915	(2,172)	1,591	21,596	27,124
Comprehensive income								
Net income							2,850	2,850
Change in unrealized losses on investments available-for-sale not other-than-temporarily impaired, including reclassification adjustments of $119					701			701
Other-than-temporarily impaired available-for-sale securities					(185)			(185)
Change in unrealized gains (losses) on cash flow hedges					87			87
Amortization of costs included in net periodic pension benefit cost, including reclassification adjustments of $59					81			81
Income tax related to other comprehensive income					(70)			(70)
Total comprehensive income					614		2,850	3,464
Transfer of Insurance Fund premiums and other income from surplus to restricted capital				374			(374)	
Preferred stock issued, net by Associations	15							15
Preferred stock dividends							(121)	(121)
Capital stock and participation certificates issued		77						77
Capital stock and participation certificates retired		(61)						(61)
Equity issued or recharacterized upon Association merger		4	$206					210
Equity retired or recharacterized upon Association merger		(4)					(206)	(210)
Patronage:								
Cash						(70)	(469)	(539)
Capital stock, participation certificates and surplus allocations		65				215	(280)	
Balance at December 31, 2009	1,786	1,504	206	3,289	(1,558)	1,736	22,996	29,959
Comprehensive income								
Net income							3,495	3,495
Change in unrealized losses on investments available-for-sale not other-than-temporarily impaired, including reclassification adjustments of $6					455			455
Other-than-temporarily impaired available-for-sale securities, including reclassification adjustments of $75					32			32
Change in unrealized gains (losses) on cash flow hedges					(64)			(64)
Amortization of costs included in net periodic pension benefit cost, including reclassification adjustments of $18					(14)			(14)
Income tax related to other comprehensive income					(22)			(22)
Total comprehensive income					387		3,495	3,882
Transfer of Insurance Fund premiums and other income from surplus to restricted capital				142			(142)	
Distribution by Insurance Fund to System institutions				(205)			205	
Preferred stock issued by Banks	300						(3)	297
Preferred stock retired by Banks	(18)							(18)
Preferred stock issued, net by Associations	57							57
Preferred stock dividends							(156)	(156)
Capital stock and participation certificates issued		83						83
Capital stock and participation certificates retired		(113)						(113)
Equity issued or recharacterized upon Association mergers		7	187					194
Equity retired or recharacterized upon Association mergers		(7)					(196)	(203)
Patronage:								
Cash						(83)	(648)	(731)
Capital stock, participation certificates and surplus allocations		68				300	(368)	
Balance at December 31, 2010	$2,125	$1,542	$393	$3,226	$(1,171)	$1,953	$25,183	$33,251

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

FARM CREDIT SYSTEM
COMBINED STATEMENT OF CASH FLOWS
(in millions)

	For the Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities			
Net income	$ 3,495	$ 2,850	$ 2,916
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	667	925	408
Depreciation and amortization on premises and equipment	82	80	77
Gains on sales of investments, net and other assets	(11)	(18)	(11)
Losses on impairment of investments available-for-sale	90	135	82
Accretion on mission-related and other investments held-to-maturity		1	2
Income on Insurance Fund assets, net of operating expenses	(63)	(54)	(73)
Decrease in accrued interest receivable	71	18	43
Decrease (increase) in other assets	176	275	(76)
Change in amortized discount on Systemwide discount notes	(4)	(49)	(34)
Decrease in accrued interest payable	(169)	(320)	(126)
Decrease in other liabilities	(69)	(217)	(193)
Net cash provided by operating activities	4,265	3,626	3,015
Cash flows from investing activities			
Increase in loans, net	(11,876)	(4,434)	(18,552)
Decrease in Federal funds sold and securities purchased under resale agreements, net	202	149	878
Investments available-for-sale:			
Purchases	(23,997)	(18,777)	(17,026)
Proceeds from maturities and payments	21,546	18,989	11,688
Proceeds from sales	132	393	189
Mission-related and other investments held-to-maturity:			
Purchases	(209)	(340)	(1,471)
Proceeds from maturities and payments	440	387	252
Mission-related and other investments available-for-sale:			
Purchases		(29)	(4)
Proceeds from maturities and payments	95	59	99
Proceeds from sale	76	20	
Decrease in tobacco contract receivables, net	111	75	43
Premiums paid to the Insurance Fund	(319)	(244)	(191)
Distribution by Insurance Fund to System institutions	205		
Purchases of premises and equipment, net of disposals	(112)	(109)	(130)
Proceeds from sales of other assets	164	113	32
Net cash used in investing activities	(13,542)	(3,748)	(24,193)
Cash flows from financing activities			
Systemwide bonds issued	118,394	115,893	110,976
Systemwide bonds and medium-term notes retired	(114,593)	(111,444)	(85,216)
Systemwide discount notes issued	415,552	407,180	407,874
Systemwide discount notes retired	(407,958)	(411,632)	(411,395)
Subordinated debt issued, net	100	497	547
Other bonds (retired) issued, net	(260)	(342)	552
Increase (decrease) in notes payable and other interest-bearing liabilities, net	3	(81)	15
(Decrease) increase in collateral held from derivative counterparties	(1)	(324)	1,336
Protected borrower stock retired	(1)	(2)	(1)
Preferred stock issued by Banks	297		198
Preferred stock retired by Banks	(18)		
Preferred stock issued by Associations	372	394	432
Preferred stock retired by Associations	(315)	(379)	(386)
Capital stock and participation certificates issued	83	77	82
Capital stock, participation certificates and surplus retired	(196)	(61)	(110)
Preferred stock dividends paid	(125)	(116)	(96)
Cash patronage paid	(462)	(574)	(590)
Net cash provided by (used in) financing activities	10,872	(914)	24,218
Net increase (decrease) in cash	1,595	(1,036)	3,040
Cash at beginning of year	2,722	3,758	718
Cash at end of year	$ 4,317	$ 2,722	$ 3,758
Supplemental schedule of non-cash investing and financing activities:			
Loans transferred to other assets	$ 413	$ 568	$ 52
Property disposals through financed sales	(36)	(259)	(6)
Conversion of mission-related and other investments held-to-maturity to loans guaranteed by Farmer Mac			(115)
Loans securitized and retained as mission-related and other held-to-maturity investments	346		
Investments available-for-sale purchased but not yet settled		(7)	
Investments available-for-sale sold but not yet settled		5	
Transfer of mission-related and other held-to-maturity investments to mission-related and other available-for-sale investments	159	40	
Transfer of allowance for loan losses (into) from reserve for unfunded commitments	(29)	(16)	154
Transfer of mission-related and other held-to-maturity investments to loans		59	
Adjustment of allowance for loan losses related to Association mergers	(12)		
Transfer of surplus to additional paid-in-capital related to Association mergers	187	206	
Supplemental non-cash fair value changes related to hedging activities:			
Increase (decrease) in Systemwide bonds and medium-term notes	86	(1,017)	1,717
(Increase) decrease in other assets	(287)	555	(1,794)
(Decrease) increase in other liabilities	(22)	(3)	71
Increase in loans, net			(1)
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	3,132	4,091	6,281
Taxes	281	118	60

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

NOTES TO COMBINED FINANCIAL STATEMENTS
(dollars in millions, except as noted)

NOTE 1 — ORGANIZATION, OPERATIONS AND PRINCIPLES OF COMBINATION

Organization and Operations

The Farm Credit System is a federally chartered network of interdependent, borrower-owned lending institutions (Banks and Associations) and affiliated service organizations. The System was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The Farm Credit Act provides authority for changes in the organizational structure and operations of the System and its entities.

At December 31, 2010, the System consisted of: (1) four Farm Credit Banks (AgFirst FCB; AgriBank, FCB; FCB of Texas; and U.S. AgBank, FCB) and their affiliated Associations, (2) one Agricultural Credit Bank (CoBank, ACB) and its affiliated Associations, (3) the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and (4) various service and other organizations.

The Associations are cooperatives owned by their borrowers and the Farm Credit Banks are cooperatives primarily owned by their affiliated Associations. CoBank is a cooperative principally owned by cooperatives, other eligible borrowers and its affiliated Associations. Each Bank and Association manages and controls its own business activities, operations and financial performance. Each Bank and Association has its own board of directors and is not commonly owned or controlled.

A Bank and its affiliated Associations are financially and operationally interdependent as the Bank is statutorily required to serve as an intermediary between the financial markets and the retail lending activities of its affiliated Associations. The Banks are the primary source of funds for the Associations. Associations are not legally authorized to accept deposits and they may not borrow from other financial institutions without the approval of their affiliated Bank. The Banks are not legally authorized to accept deposits and they principally obtain their funds through the issuance of Systemwide Debt Securities. As a result, the loans made by the Associations are substantially funded by the issuance of Systemwide Debt Securities by the Banks. The repayment of Systemwide Debt Securities is dependent upon the ability of borrowers to repay their loans from the Associations. In addition, CoBank makes retail loans and leases directly to cooperatives, rural utilities, and other eligible borrowers, and the Banks purchase retail loan participations from Associations and other lenders, including other System Banks. Therefore, the repayment of Systemwide Debt Securities is also dependent upon the ability of these retail borrowers to repay their loans.

As required by the Farm Credit Act, the System specializes in providing financing and related services to qualified borrowers in the agricultural and rural sectors and to certain related entities. The System makes credit available in all 50 states, the Commonwealth of Puerto Rico, and U.S. territories under conditions set forth in the Farm Credit Act, which provides both geographic and agricultural sector diversification.

The Banks and/or Associations jointly own several organizations that were created to provide a variety of services for the System. The Funding Corporation provides for the issuance, marketing and handling of Systemwide Debt Securities, using a selling group, and prepares and distributes the Farm Credit System Quarterly and Annual Information Statements. The Farm Credit System Building Association is a partnership of the Banks that owns premises and other fixed assets that are leased to the Farm Credit Administration, the System's regulator.

The Farm Credit Leasing Services Corporation (Leasing Services Corporation), a wholly-owned subsidiary of CoBank, ACB, provides a variety of leasing programs primarily for agriculture-related equipment and facilities. Other leasing programs exist in the System through Associations and through alliances with non-System leasing companies.

Most System institutions provide financially related services to their customers, including credit, appraisal and mortgage life or disability insurance, crop insurance, estate planning, record keeping services, tax planning and preparation, and consulting.

The Farm Credit Act provided for the establishment of the Farm Credit System Insurance Corporation (Insurance Corporation). As more fully described in Note 7, the Farm Credit Insurance Fund (Insurance

Fund) is under the direct control of the Insurance Corporation.

The Farm Credit Administration is delegated authority by Congress to regulate the activities of the Banks, Associations and certain other System institutions. The Farm Credit Administration examines the activities of System institutions to ensure their compliance with the Farm Credit Act, Farm Credit Administration regulations, and safe and sound banking practices. The Farm Credit Administration has statutory enforcement and related authorities with respect to System institutions.

Principles of Combination

The accompanying System combined financial statements include the accounts of the Banks, the affiliated Associations, the Funding Corporation and the Insurance Fund and reflect the investments in, and allocated earnings of, the service organizations owned jointly by the Banks and/or Associations. The System combined financial statements include the equity investments of the Farm Credit System Building Association. All significant intra-System transactions and balances have been eliminated in combination. Combined financial statements of the System are presented because of the financial and operational interdependence of the Banks and Associations. Notwithstanding the presentation in the accompanying combined financial statements, the joint and several liability for Systemwide Debt Securities is limited to the Banks, as more fully described in Notes 9, 13 and 22.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Practices

The accounting and reporting policies of the System conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of combined financial statements in conformity with GAAP requires the managements of System institutions to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these footnotes, where applicable. Actual results could differ from those estimates.

Certain amounts in prior years' combined financial statements have been reclassified to conform to the current year presentation. During the preparation of the 2010 Financial Statements, it was discovered that in the 2009 Statement of Cash Flows the presentation of cash patronage paid resulting from the accounting for the merger of two Associations in the fourth quarter of 2009 was incorrectly applied. Although it has been determined that the error was immaterial, nevertheless the 2009 Statement of Cash Flows was revised. This resulted in an increase in net cash provided by operating activities of $206 million and an increase in net cash used in financing activities of $206 million in 2009.

Recently Issued or Adopted Accounting Pronouncements

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delays the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring will be coordinated and is anticipated to be effective for periods ending after June 15, 2011.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance is intended to provide 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 are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, 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 disaggregated 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 are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not impact the System's financial condition or results of operations, but did result in significant additional disclosures.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust 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 are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard had no impact on the System's financial condition or results of operations but resulted in additional disclosures.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. This guidance must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. System institutions reviewed their loan participation agreements to ensure that participations would meet the requirements for sales treatment and not be required to be consolidated. The impact of adoption of this guidance on January 1, 2010 was not material to the System's financial condition and results of operations.

Cash

Cash, as included in the financial statements, represents cash on hand and deposits at banks.

Investments and Federal Funds

The Banks and Associations, as permitted under Farm Credit Administration regulations, hold investments for the purposes of maintaining a liquidity reserve, managing short-term surplus funds, and managing interest rate risk. These investments are generally classified as available-for-sale and carried at fair value, and unrealized holding gains and losses are netted and reported as a separate component of capital. Changes in the fair value of these investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other than temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is

other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (1) the estimated amount relating to credit loss, and (2) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Bank or Association would record an additional other-than-temporary impairment and adjust the yield of the security prospectively. The amount of total other-than-temporary impairment for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporary impairment and its fair value.

Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. Neither the Banks nor the Associations hold investments for trading purposes.

All or a portion of the unrealized holding gain or loss of an available-for-sale security that is designated as a hedged item in a fair value hedge must be recognized in earnings during the period of the hedge.

Banks and Associations may also hold additional investments in accordance with mission-related and other investment programs approved by the Farm Credit Administration. These programs allow Banks and Associations to make investments that further the System's mission to serve rural America. These investments are not included in the Banks' liquidity calculations and are not covered by the eligible investment limitations specified by the Farm Credit Administration regulations. Mortgage-backed securities issued by Farmer Mac are considered other investments and are also excluded from the limitation and the Banks' liquidity calculations. Mission-related and other investments for which the System institution has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts. Farmer Mac investments are classified either as held-to-maturity or available-for-sale depending on the institution's ability and intent to hold the investment to maturity.

Loans and Allowance for Loan Losses

Loans are generally carried at their principal amount outstanding adjusted for charge-offs, deferred loan fees or costs, and valuation adjustments relating to hedging activities. Loan origination fees and direct loan origination costs are capitalized, on a combined System basis, and the net fee or cost is amortized over the average life of the related loan as an adjustment to interest income. Loan prepayment fees are reported in interest income. Interest on loans is accrued and credited to interest income based on the daily principal amount outstanding.

Loans acquired in a business combination are initially recognized at fair value, and therefore, no "carryover" of the allowance for loan losses is permitted. Those loans with evidence of credit quality deterioration at purchase are required to follow the authoritative accounting guidance on "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable rate loans, expected future cash flows were initially based on the rate in

effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the original contractual terms and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Bank or Association grants a concession to the debtor that it would not otherwise consider.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or when circumstances indicate that collection of principal and interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, interest payments received in cash are generally recognized as interest income if the collectibility of the loan principal is fully expected and certain other criteria are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer should first be recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The Bank and related Associations use a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of each Bank's and Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by managements to provide for probable and estimable losses inherent in the loan portfolios. The allowance for loan losses represents the aggregate of each System entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the combined financial statements, the allowance for loan losses of each System entity is particular to that institution and

is not available to absorb losses realized by other System entities. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs.

The allowance is based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the System's loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from System institutions' expectations and predictions of those circumstances. Managements consider a number of factors in determining and supporting the levels of System institutions' allowances for loan losses, which include: the System's concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

Premises and Equipment

Premises and equipment are carried at cost, less accumulated depreciation and amortization, which is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expenses and improvements are capitalized.

Other Assets

In connection with past foreclosure and sale proceedings, some Banks and Associations continue to retain certain mineral interests and equity positions in land from which revenues are received in the form of lease bonuses, rentals and leasing and production royalties. These intangible assets are recorded at nominal or no value in the Combined Statement of Condition. The Farm Credit Act requires that mineral rights acquired through foreclosure in 1986 and later years be sold to the buyer of the land surface rights.

Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the Statement of Condition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the Statement of Income.

Employee Benefit Plans

Substantially all employees of System institutions participate in various retirement plans. System institutions generally provide defined benefit and/or defined contribution retirement plans for their employees. For financial reporting purposes, System institutions use the projected unit credit actuarial method for defined benefit retirement plans.

The Banks and Associations provide certain healthcare and life insurance benefits to eligible retired employees. Employees of System institutions may become eligible for those benefits if they reach normal retirement age while working for the institution. The authoritative accounting guidance requires the accrual of the expected cost of providing

postretirement benefits other than pensions (primarily healthcare benefits) to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits.

Income Taxes

The Farm Credit Banks, certain Associations, and the income related to the Insurance Fund are exempt from federal and other income taxes as provided in the Farm Credit Act. CoBank, certain other Associations and service organizations are not exempt from federal and certain other income taxes. Taxable institutions are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code. Under specified conditions, these cooperatives can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. System institutions whose patronage distributions are based on book income recognize the tax effect of all temporary differences based on the assumption that these temporary differences are retained by the institution and will therefore impact future tax payments. Certain taxable System institutions have provided a valuation allowance for deferred tax assets to the extent that it is more likely than not that the deferred tax assets will not be realized.

Deferred income taxes have not been provided by the taxable Associations on pre-1993 (the adoption date of the FASB guidance on income taxes) earnings from their related Bank when management's intent is to permanently invest these undistributed earnings in the Bank and to indefinitely postpone their conversion to cash, or if distributed by the related Bank, to pass these earnings through to Association borrowers through qualified patronage allocations.

Deferred income taxes have not been provided for the Banks' post-1992 earnings allocated to taxable Associations to the extent that the earnings will be passed through to Association borrowers through qualified patronage allocations. No deferred income taxes have been provided for the Banks' post-1992 unallocated earnings. The Banks currently have no plans to distribute unallocated Bank earnings and do not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

Derivative Products and Hedging Activity

The Banks are party to derivative financial products, primarily interest rate swaps, which are principally used to manage interest rate risk on assets, liabilities, anticipated transactions and firm commitments. Derivatives are recorded on the combined statement of condition as assets or liabilities, measured at fair value.

Changes in the fair value of a derivative are recorded in current period earnings or accumulated other comprehensive income (loss) depending on the use of the derivative and whether it qualifies for hedge accounting. For fair-value hedge transactions, which hedge changes in the fair value of assets, liabilities, or firm commitments, changes in the fair value of the derivative are reflected in current period earnings and are generally offset by changes in the hedged item's fair value. For cash-flow hedge transactions, which hedge the variability of future cash flows related to a floating-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative are deferred and reported in accumulated other comprehensive income (loss). The gains and losses on the derivative that are deferred and reported in accumulated other comprehensive income (loss) are reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recorded in current period earnings. For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings.

Each Bank formally documents all relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) firm commitments or forecasted transactions. Each Bank also formally assesses (both at the hedge's inception and on an ongoing basis, at least quarterly) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value

or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. Each Bank typically uses regression analyses or other statistical analyses to assess the effectiveness of its hedges. Each Bank discontinues hedge accounting prospectively when the Bank determines that a hedge has not been or is not expected to be effective as a hedge. For discontinued cash flow hedges, any remaining accumulated other comprehensive income (loss) is amortized into earnings over the remaining life of the original hedged item. For discontinued fair value hedges, changes in the fair value of the derivative are recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank carries the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

Fair Value Measurement

The fair value guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and the supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds, and fixed-income securities that are actively traded are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (3) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates and (4) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. The market value of collateral assets and liabilities is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities are reported in Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities and certain mortgage-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

Merger Accounting

The FASB guidance on business combinations applies to all transactions in which an entity obtains control of one or more businesses and requires the acquirer to use the acquisition method of accounting and recognize assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date. The guidance applies to System institutions and became effective for business combinations that close on or after January 1, 2009.

For System institutions, because the stock in each Association is fixed in value, the stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the acquiring Association would identify and estimate the acquisition date fair value of the equity interests (net assets) of the acquired Association instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed, are measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. The excess value received, by the acquiring Association from the acquired Association, over the par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital.

Off-Balance-Sheet Credit Exposures

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 — INVESTMENTS

Available-for-Sale

The following is a summary of investments held by the Banks for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk and classified as available-for-sale:

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 4,815	$ 8		$ 4,823	0.58%
U.S. Treasury securities	4,495	10	$ (1)	4,504	1.19
U.S. agency securities	837	58		895	4.30
Mortgage-backed securities	25,868	342	(446)	25,764	1.89
Asset-backed securities	1,154	12	(117)	1,049	1.48
Total	$37,169	$430	$(564)	$37,035	1.68

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 5,841	$ 11	$ (2)	$ 5,850	0.51%
U.S. Treasury securities	2,413		(4)	2,409	1.37
U.S. agency securities	846	23		869	4.31
Mortgage-backed securities	24,421	271	(732)	23,960	2.22
Asset-backed securities	1,417	10	(204)	1,223	1.75
Total	$34,938	$315	$(942)	$34,311	1.90

The System realized gross gains of $12 million and gross losses of $3 million in 2010 and gross gains of $18 million and gross losses of $3 million in 2009 from sales of investment securities.

A summary of the fair value and amortized cost of investments available-for-sale at December 31, 2010 by contractual maturity is as follows:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$3,212		$1,611						$ 4,823	0.58%
U.S. Treasury securities	3,546		958						4,504	1.19
U.S. agency securities	94		263		$ 538				895	4.30
Mortgage-backed securities			212		1,437		$24,115		25,764	1.89
Asset-backed securities			6		83		960		1,049	1.48
Total fair value	$6,852	0.83%	$3,050	1.38%	$2,058	2.58%	$25,075	1.87%	$37,035	1.68
Total amortized cost	$6,840		$3,019		$2,014		$25,296		$37,169	

Substantially all mortgage-backed securities and most asset-backed securities have contractual maturities in excess of ten years. However, expected and actual maturities for these securities will typically be shorter than contractual maturities because borrowers generally have the right to prepay the underlying obligations with or without prepayment penalties.

The ratings of the eligible investments held for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk must meet the applicable regulatory guidelines, which require all of these securities to be high quality, and rated triple-A at the time of purchase, except for commercial paper and corporate securities. Commercial paper must have the highest short-term rating and corporate securities one of the two highest ratings at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through over collateralization or other features and the priority of payments.

If an investment no longer meets the credit rating criteria, the investment becomes ineligible. A Bank must dispose of an investment that becomes ineligible within six months, unless the Farm Credit Administration approves, in writing, a plan that authorizes the Bank to divest over a longer period of time. The Farm Credit Administration has approved with conditions a majority of plans submitted by the Banks regarding ineligible investments and is in the process of reviewing other plans that have been submitted. To date, the Farm Credit Administration has not required disposition of any of these securities.

System institutions perform analyses on these securities based on the expected behavior of the underlying loan collateral, whereby these loan performance scenarios are applied against each security's credit-support structure to monitor credit-enhancement sufficiency to protect the investment. The model output includes projected cash flows, including any shortfalls in the capacity of the underlying collateral to fully return the original investment, plus accrued interest.

Held-to-Maturity Mission-Related and Other Investments

The Banks and Associations may hold mission-related and other investments. Mission-related programs and other mission-related investments are approved by the Farm Credit Administration. The following is a summary of held-to-maturity mission-related and other investments:

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 239	$ 9	$ (2)	$ 246	6.05%
Mortgage-backed securities	2,829	85	(32)	2,882	3.69
Asset-backed securities	618	11	(6)	623	3.72
Total	$3,686	$105	$(40)	$3,751	3.85

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 210	$ 2	$(20)	$ 192	6.11%
Mortgage-backed securities	2,001	64	(9)	2,056	4.77
Asset-backed securities	1,519	13	(24)	1,508	3.93
Total	$3,730	$79	$(53)	$3,756	4.50

A summary of the fair value and amortized cost of mission-related and other investments that are held-to-maturity at December 31, 2010 by contractual maturity is as follows:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities			$ 25		$ 22		$ 192		$ 239	6.05%
Mortgage-backed securities	$ 6		162		251		2,410		2,829	3.69
Asset-backed securities	4		48		364		202		618	3.72
Total amortized cost	$10	2.00%	$235	4.28%	$637	2.69%	$2,804	4.08%	$3,686	3.85
Total fair value	$ 9		$239		$644		$2,859		$3,751	

Available-for-Sale Mission-Related and Other Investments

The following is a summary of available-for-sale mission-related and other investments:

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	$563	$9	$(6)	$566	3.00%
Total	$563	$9	$(6)	$566	3.00%

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	$492	$11	$(1)	$502	3.11%
Asset-backed securities	76	—	—	76	1.74
Total	$568	$11	$(1)	$578	2.93

A summary of the fair value and amortized cost of mission-related and other investments that are available-for-sale at December 31, 2010 by contractual maturity is as follows:

	Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Total fair value — Mortgage-backed securities	$125	4.99%	$16	5.70%	$425	2.31%	$566	3.00%
Total amortized cost	$129		$16		$418		$563	

Other-Than-Temporarily Impaired Investments Evaluation

The following tables show the gross unrealized losses and fair value of the System's available-for-sale, and mission-related and other investment securities that have been in a continuous unrealized loss position. An investment is considered impaired if its fair value is less than its cost. The continuous loss position is based on the date the impairment was first identified.

	Less Than 12 Months		12 Months or More	
December 31, 2010	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 404	$ (2)		
U.S. Treasury securities	404	(1)		
Mortgage-backed securities	6,409	(80)	$5,169	$(404)
Asset-backed securities	520	(5)	513	(118)
Total	$7,737	$(88)	$5,682	$(522)

December 31, 2009	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$1,935	$(14)	$ 76	$ (8)
U.S. Treasury securities	2,082	(4)		
Mortgage-backed securities	3,245	(33)	9,767	(709)
Asset-backed securities	428	(2)	1,853	(226)
Total	$7,690	$(53)	$11,696	$(943)

As more fully discussed in Note 2, the guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary including: (1) whether or not an entity intends to sell the security, (2) whether it is more likely than not that an entity would be required to sell the security before recovering its costs, or (3) whether an entity does expect to recover the security's entire amortized cost basis (even if it does not intend to sell).

System institutions perform an evaluation quarterly on a security-by-security basis considering all available information. If a Bank or Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When a Bank or Association does not intend to sell securities in an unrealized loss position, other-than-temporary impairment is considered using various factors, including the length of time and the extent to which the fair value is less than cost, adverse conditions specifically related to the industry, geographic area and the condition of the underlying collateral, payment structure of the security, ratings by rating agencies, the creditworthiness of bond insurers and volatility of the fair value changes. A Bank or Association uses estimated cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist. In estimating cash flows, it considers factors such as expectations of relevant market and economic data, including underlying loan level data for mortgage-backed and asset-backed securities and credit enhancements.

For impaired investments, a Bank or Association estimates the portion of the loss that is attributable to credit losses using a discounted cash flow model on a security-by-security basis. The various models require key assumptions related to the underlying collateral, including default rates, degree and timing of prepayments, and loss severity. Assumptions can vary widely from loan to loan and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics and collateral type. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults and the default rates used at December 31, 2010 ranged from 1.6% to 47.3% for mortgage-backed securities and 1.9% to 74.4% for asset-backed securities. Prepayment rate assumptions are based on historical and projected prepayment rates and ranged from 0.0% to 26.7% for mortgage-backed securities and 2.0% to 22.6% for asset-backed securities at December 31, 2010. The Banks obtain the loss severity assumptions from independent third parties or through research using available data on the underlying collateral type from sources including broker/dealers and rating agencies. At December 31, 2010, the loss severity assumptions ranged from 4.4% to 62.0% for mortgage-backed securities and 48.0% to 100.0% for asset-backed securities.

The following table presents a rollforward of the credit loss component recognized in earnings on debt securities still owned by System institutions (referred to as "credit impaired" securities). As mentioned above, the credit loss component of the amortized cost represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. Other-than-temporary impairment recognized in earnings for credit-impaired securities is presented as additions in two components depending on whether or not the impairment is being recognized for the first time (initial credit impairment) or is not the first time for the security (subsequent credit impairment). The

credit loss component is reduced if System institutions sell, intend to sell, or believe it will be required to sell previously credit-impaired debt securities. In addition, the credit loss component is reduced if System institutions receive or expect to receive cash flows in excess of what we previously expected to receive over the remaining life of the security, the security matures or is fully written down. Changes in the credit loss component of credit-impaired debt securities were as follows:

	For the Year Ended December 31,	
	2010	2009
Credit loss component, beginning of period	$177	$ 42
Additions:		
Initial credit impairment	36	116
Subsequent credit impairments	54	19
Reductions:		
For securities sold	(30)	
For increases in expected cash flows	(1)	
Credit loss component, end of period	$236	$177

NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES

The System is limited by statute to providing credit and related services nationwide to farmers, ranchers, producers and harvesters of aquatic products, rural homeowners, certain farm-related businesses, agricultural and aquatic cooperatives (or to other entities for the benefit of the cooperatives) and their customers, rural utilities, and other eligible entities engaging in certain international transactions related to agriculture as described below. Accordingly, the borrowers' abilities to perform in accordance with their loan contracts are generally dependent upon the performance of the agricultural economic sector. While the amounts in the following table represent the maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the System's lending activities is collateralized, which reduces the exposure to credit risk associated with the activities.

Loans outstanding by portfolio segment and class consisted of the following:

	December 31,	
	2010	2009
Real estate mortgage loans	$ 78,021	$ 75,352
Production and intermediate-term loans	40,584	39,610
Agribusiness loans:		
Loans to cooperatives	16,181	10,525
Processing and marketing loans	11,145	10,996
Farm-related business loans	2,255	2,105
Energy and water/waste disposal loans	11,456	10,676
Rural residential real estate loans	5,475	4,977
International loans	4,036	3,956
Communication loans	3,635	3,886
Lease receivables	2,021	2,160
Loans to other financing institutions	542	587
Total loans	$175,351	$164,830

Approximately 45% of the loan volume at December 31, 2010 and 2009 contained terms under which the interest rate on the outstanding balance may be adjusted from time-to-time during the term of the loan. These floating-rate loans are comprised of administered-rate loans that may be adjusted at the discretion of the lending institution and indexed/adjustable loans that are periodically adjusted based on changes in specified indices. Fixed-rate loans comprised the remaining 55% of loans outstanding at December 31, 2010 and 2009.

As of December 31, 2010 and 2009, 85% and 92% of the loans made in connection with international transactions, which were for the purpose of financing U.S. agricultural exports, were guaranteed through the United States Department of Agriculture's Commodity Credit Corporation.

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 December 31:

	2010	2009	2008
Real estate mortgage			
Acceptable	90.5%	92.0%	96.0%
OAEM	4.6	3.8	2.2
Substandard/doubtful	4.9	4.2	1.8
	100.0	100.0	100.0
Production and intermediate-term			
Acceptable	87.5	86.9	92.9
OAEM	5.8	5.5	3.1
Substandard/doubtful	6.7	7.6	4.0
	100.0	100.0	100.0
Agribusiness			
Acceptable	89.0	83.4	90.6
OAEM	7.0	8.4	3.5
Substandard/doubtful	4.0	8.2	5.9
	100.0	100.0	100.0
Energy and water/waste disposal			
Acceptable	98.5	99.4	99.8
OAEM	1.0	0.3	0.1
Substandard/doubtful	0.5	0.3	0.1
	100.0	100.0	100.0
Rural residential real estate			
Acceptable	95.8	96.4	97.4
OAEM	1.3	1.5	1.3
Substandard/doubtful	2.9	2.1	1.3
	100.0	100.0	100.0
International			
Acceptable	100.0	100.0	99.8
OAEM	0.0	0.0	0.1
Substandard/doubtful	0.0	0.0	0.1
	100.0	100.0	100.0
Communication			
Acceptable	94.6	94.9	96.8
OAEM	2.3	1.8	1.5
Substandard/doubtful	3.1	3.3	1.7
	100.0	100.0	100.0
Lease receivables			
Acceptable	93.8	92.6	94.1
OAEM	2.8	3.4	2.2
Substandard/doubtful	3.4	4.0	3.7
	100.0	100.0	100.0
Loans to other financing institutions			
Acceptable	99.1	100.0	100.0
OAEM	0.9	0.0	0.0
Substandard/doubtful	0.0	0.0	0.0
	100.0	100.0	100.0
Total Loans			
Acceptable	90.6	90.4	94.7
OAEM	4.8	4.4	2.4
Substandard/doubtful	4.6	5.2	2.9
	100.0	100.0	100.0

Impaired loans (which consist of nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due) are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. The following tables present information concerning impaired loans and include both the principal outstanding and the related accrued interest receivable on these loans.

	December 31, 2010	December 31, 2009
Nonaccrual loans:		
Current as to principal and interest	$1,604	$1,740
Past due	1,625	1,629
Total nonaccrual loans	3,229	3,369
Impaired accrual loans:		
Restructured accrual loans	114	64
Accrual loans 90 days or more past due	43	102
Total impaired accrual loans	157	166
Total impaired loans	$3,386	$3,535

The following table reflects nonperforming assets (which consist of impaired loans and other property owned) in a more detailed manner than the previous table. In addition, certain related credit quality statistics are included below:

	December 31,		
	2010	2009	2008
Nonaccrual loans:			
Real estate mortgage	$1,662	$1,248	$ 526
Production and intermediate-term	1,017	1,303	659
Agribusiness	350	595	986
Energy and water/waste disposal	6	31	10
Rural residential real estate	78	59	38
International			5
Communication	83	116	30
Lease receivables	33	17	28
Total nonaccrual loans	3,229	3,369	2,282
Accruing restructured loans:			
Real estate mortgage	47	37	30
Production and intermediate-term	21	27	5
Agribusiness	46		1
Total accruing restructured loans	114	64	36
Accruing loans 90 days or more past due:			
Real estate mortgage	20	45	26
Production and intermediate-term	14	24	34
Agribusiness	1	18	30
Rural residential real estate	7	10	7
Communication		2	
Lease receivables	1	3	1
Total accruing loans 90 days or more past due	43	102	98
Total nonperforming loans	3,386	3,535	2,416
Other property owned	454	241	46
Total nonperforming assets	$3,840	$3,776	$2,462

	December 31,		
	2010	2009	2008
Nonaccrual loans as a percentage of total loans	1.84%	2.04%	1.41%
Nonperforming assets as a percentage of total loans and other property owned	2.18	2.29	1.52
Nonperforming assets as a percentage of capital	11.55	12.60	9.08

Commitments to lend additional funds to debtors whose loans were classified as impaired were $107 million and $215 million at December 31, 2010 and 2009.

Additional impaired loan information by class is as follows:

	Balance at December 31, 2010			For the Year Ended December 31, 2010	
	Recorded Investment*	Unpaid Principal Balance**	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 466	$ 540	$114	$ 441	$ 4
Production and intermediate-term	556	672	161	659	4
Loans to cooperatives	43	49	17	54	
Processing and marketing	145	156	41	138	1
Farm-related business	39	40	15	32	
Energy and water/waste disposal	1	1	1	8	
Rural residential real estate	17	18	5	15	
Communication	58	69	27	66	
Lease receivables	8	8	3	1	
Total	1,333	1,553	384	1,414	9
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	1,263	1,364		1,217	$29
Production and intermediate-term	496	620		585	25
Loans to cooperatives	18	28		96	5
Processing and marketing	114	167		205	13
Farm-related business	38	62		43	1
Energy and water/waste disposal	5	38		10	
Rural residential real estate	68	72		60	2
Communication	25	29		30	1
Lease receivables	26	26		13	
Total	2,053	2,406		2,259	76
Total impaired loans:					
Real estate mortgage	1,729	1,904	114	1,658	33
Production and intermediate-term	1,052	1,292	161	1,244	29
Loans to cooperatives	61	77	17	150	5
Processing and marketing	259	323	41	343	14
Farm-related business	77	102	15	75	1
Energy and water/waste disposal	6	39	1	18	
Rural residential real estate	85	90	5	75	2
Communication	83	98	27	96	1
Lease receivables	34	34	3	14	
Total	$3,386	$3,959	$384	$3,673	$85

* 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.

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

Impaired loans totaled $3.535 billion at December 31, 2009, of which $1.832 billion had a related allowance for loan losses of $502 million.

The following table provides an age analysis of past due loans (including accrued interest) by portfolio segment as of December 31, 2010:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real estate mortgage	$422	$ 798	$1,220	$ 77,672	$ 78,892	$20
Production and intermediate-term	214	452	666	40,358	41,024	14
Agribusiness	29	113	142	29,559	29,701	1
Energy and water/waste disposal				11,517	11,517	
Rural residential real estate	91	40	131	5,368	5,499	7
International				4,046	4,046	
Communication		34	34	3,614	3,648	
Lease receivables	9	11	20	2,001	2,021	1
Loans to other financing institutions	1		1	543	544	
Total	$766	$1,448	$2,214	$174,678	$176,892	$43

Interest income on nonaccrual and accruing restructured loans that would have been recorded during 2010 if the loans had been current in accordance with their original terms:

Interest income that would have been recognized under original terms	$211
Less: interest income recognized	(80)
Interest income not recognized	$131

A summary of changes in the allowance for loan losses and the recorded investment for loans outstanding by portfolio segment follows:

	Real estate mortgage	Production and intermediate-term	Agribusiness	Energy and water/waste disposal	Rural residential real estate	International	Communications	Lease receivables	Loans to OFIs	Total
Allowance for Credit Losses:										
Balance at December 31, 2009	$ 347	$ 385	$ 455	$ 62	$ 12	$ 12	$ 63	$ 22	$ 1	$ 1,359
Charge-offs	(236)	(221)	(118)	(63)	(11)	(3)	(18)	(3)		(673)
Recoveries	12	35	11	4		2	13			77
Provision for loan losses	300	248	20	64	19		10	6		667
Adjustment due to merger	(6)	(3)	(3)							(12)
Other*	1	3	30	(4)			(1)			29
Balance at December 31, 2010	$ 418	$ 447	$ 395	$ 63	$ 20	$ 11	$ 67	$ 25	$ 1	$ 1,447
Ending Balance:										
Individually evaluated for impairment	$ 119	$ 162	$ 74		$ 5		$ 27	$ 3		$ 390
Collectively evaluated for impairment	297	284	321	$ 63	15	$ 11	40	22	$ 1	1,054
Loans acquired with deteriorated credit quality	2	1								3
Balance at December 31, 2010	$ 418	$ 447	$ 395	$ 63	$ 20	$ 11	$ 67	$ 25	$ 1	$ 1,447
Recorded Investments in Loans Outstanding:										
Ending balance:										
Loans individually evaluated for impairment	$ 1,890	$ 1,333	$ 612	$ 86	$1,902		$ 83	$ 40		$ 5,946
Loans collectively evaluated for impairment	76,983	39,685	29,089	11,431	3,597	$4,046	3,565	1,981	$544	170,921
Loans acquired with deteriorated credit quality	19	6								25
Balance at December 31, 2010	$78,892	$41,024	$29,701	$11,517	$5,499	$4,046	$3,648	$2,021	$544	$176,892

* Represents the transfer into (out of) the allowance for loan losses from (to) the reserve for unfunded commitments.

NOTE 5 — PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31, 2010	December 31, 2009
Land, buildings and improvements	$ 704	$ 672
Furniture and equipment	549	524
	1,253	1,196
Less: accumulated depreciation	(589)	(562)
	$ 664	$ 634

NOTE 6 — OTHER ASSETS AND OTHER LIABILITIES

Other assets consisted of the following:

	December 31, 2010	December 31, 2009
Interest rate swaps and other derivatives	$1,401	$1,367
Equipment held for lease	846	860
Tobacco contracts receivables	578	689
Other property owned	454	241
Accounts receivable	228	185
Unamortized debt issue costs	132	127
Equity investments in other System institutions	80	76
Prepaid expenses	62	65
Investment in preferred stock of Farmer Mac		60
Net deferred tax assets	33	31
Pension assets	15	17
Other	187	172
Total	$4,016	$3,890

Other liabilities consisted of the following:

	December 31, 2010	December 31, 2009
Collateral held from derivative counterparties	$1,099	$1,100
Pension and other postretirement benefit plan liabilities	987	950
Patronage and dividends payable	675	470
Accounts payable	308	534
Net deferred tax liabilities	250	189
Accrued salaries and employee benefits	159	143
Interest rate swaps and other derivatives	109	131
Reserve for unfunded commitments	107	136
Bank drafts payable	64	71
Protected borrower stock	7	8
Other	268	228
Total	$4,033	$3,960

Substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit with exposure are reached by one of the counterparties to the other.

As part of the "Fair and Equitable Tobacco Reform Act of 2004," tobacco producers are to receive 10 equal payments over 10 years under a contract with the Secretary of Agriculture. Certain Associations have entered into successor-in-interest contracts with tobacco producers. Under the contracts, the Associations have paid the producers a lump sum and have received the rights to the remaining contract payments.

Reserve for unfunded commitments provides for potential losses related to unfunded commitments. This reserve is determined using the same methodology as used for our allowance for loan losses.

The five Banks had in the aggregate a $60 million investment in senior cumulative perpetual preferred stock of Farmer Mac. The stock was redeemable in whole by Farmer Mac and was repurchased and retired by Farmer Mac in early 2010.

Protection of certain borrower stock is provided under the Farm Credit Act, which requires System institutions, when retiring protected borrower stock, to retire the stock at par or stated value regardless of its book value. Protected borrower stock includes participation certificates and allocated equities that were outstanding as of January 6, 1988, or that were issued or allocated prior to October 6, 1988. If a System institution is unable to retire protected borrower stock at par or stated value due to the liquidation of the institution, amounts required to retire protected borrower stock would be obtained from the Insurance Fund, as discussed in Note 7. As a result of the borrower capital protection mechanisms contained in the Farm Credit Act, the at-risk characteristics necessary for such protected borrower stock to be classified as permanent equity have been substantially reduced. Accordingly, at December 31, 2010 and 2009, $7 million and $8 million of protected borrower stock has been classified as a liability in the accompanying Combined Statement of Condition.

NOTE 7 — FARM CREDIT INSURANCE FUND

The assets in the Insurance Fund are designated as restricted assets and the related capital is designated as restricted capital. The classification of the Insurance Fund as restricted assets (and as restricted capital) in the System's combined financial statements is based on the statutory requirement that the amounts in the Insurance Fund are to be used solely for the purposes specified in the Farm Credit Act, all of which benefit System institutions. The Insurance Fund is under the direct control of the Insurance Corporation, an independent U.S. government-controlled corporation, and not under the control of any System institution. A board of directors consisting of the Farm Credit Administration Board directs the Insurance Corporation.

The Insurance Corporation's primary asset is the Insurance Fund and the primary sources of funds for the Insurance Fund are:

- premiums paid by the Banks, which may be passed on to the Associations, and
- earnings on assets in the Insurance Fund.

Premiums will be due until the assets in the Insurance Fund for which no specific use has been identified or designated reach the "secure base amount," which is defined in the Farm Credit Act as 2% of the aggregate outstanding insured obligations (adjusted to reflect the System's reduced risk on loans and investments guaranteed by federal or state governments) or such other percentage of the aggregate outstanding insured obligations as the Insurance Corporation, in its sole discretion, determines to be actuarially sound.

The Insurance Corporation is required to expend funds in the Insurance Fund to:

- insure the timely payment of principal and interest on Systemwide Debt Securities, and
- ensure the retirement of protected borrower stock at par value.

The Insurance Corporation is authorized to use the Insurance Fund to cover its operating costs. Subject to the "least-cost determination" described below, the Insurance Corporation is authorized, in its sole discretion, to expend amounts in the Insurance Fund to:

- provide assistance to a financially stressed Bank or Association,
- make loans on the security of, or may purchase, and liquidate or sell, any part of the assets of any Bank or Association that is placed in receivership because of the inability of the institution to pay the principal or interest on any of its notes, bonds, debentures, or other obligations in a timely manner, or
- provide assistance to qualified merging institutions.

The Insurance Corporation cannot provide discretionary assistance to an eligible institution as described above unless the means of providing the assistance is the least costly means of all possible alternatives available to the Insurance Corporation. The alternatives may include liquidation of the eligible institution (taking into account, among other factors, payment of the insured obligations issued on behalf of the institution).

In the event a Bank is unable to pay on a timely basis an insured debt obligation for which that Bank is primarily liable, the Insurance Corporation must

expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the obligation cannot be invoked until all amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay principal or interest on the insured debt obligation. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the U.S. government.

At December 31, 2010, assets in the Insurance Fund consisted of cash and cash equivalents, which includes investments in U.S. Treasury obligations with original maturities of 90 days or less of $150 million, investments of $2.974 billion, accrued interest receivable of $22 million and premiums receivable from System institutions of $80 million accrued on the basis of adjusted outstanding insured debt at December 31, 2010.

If at the end of any calendar year, the aggregate amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary, to maintain the Insurance Fund at the 2% level. In addition, the Insurance Corporation is required to establish Allocated Insurance Reserves Accounts for each Bank and for former Farm Credit System Financial Assistance Corporation stockholders.

As of December 31, 2009, assets in the Insurance Fund were estimated to be $210 million in excess of the secure base amount. As a result, the Insurance Corporation distributed $205 million to System institutions in early 2010.

At December 31, 2010 and 2009, the investments, which are classified as restricted assets and are carried at amortized cost, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2010:				
U.S. Treasury obligations	$2,974	$64	$(7)	$3,031

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2009:				
U.S. Treasury obligations	$2,933	$49	$(9)	$2,973

The amortized cost and fair value at December 31, 2010 by contractual maturity were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$1,103	$1,115
Due one year through five years	1,871	1,916
	$2,974	$3,031

NOTE 8 — SHORT-TERM BORROWINGS

The System uses short-term borrowings as a source of funds. The following table shows short-term borrowings by category:

	2010		2009		2008	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Systemwide discount notes:						
Outstanding at December 31	$19,194	0.24%	$11,604	0.31%	$16,105	1.34%
Average during year	12,840	0.28	14,526	0.89	16,419	2.56
Maximum month-end balance during year	19,194		17,493		22,850	
Systemwide bonds(1):						
Outstanding at December 31	7,222	0.31	13,052	0.44	10,410	1.51
Average during year	10,014	0.39	12,666	0.83	9,167	2.50
Maximum month-end balance during year	13,117		13,965		10,410	

(1) Represents bonds issued with a maturity of one year or less.

NOTE 9 — SYSTEMWIDE DEBT SECURITIES AND OTHER BONDS

Aggregate maturities and the weighted average interest rate of Systemwide Debt Securities were as follows at December 31, 2010:

	Bonds		Medium-term notes		Discount notes		Total	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2011	$ 48,837	0.86%	$ 36	6.26%	$19,194	0.24%	$ 68,067	0.69%
2012	42,731	0.84	26	2.27			42,757	0.84
2013	22,029	1.40	184	5.22			22,213	1.43
2014	13,075	2.04	10	8.16			13,085	2.04
2015	12,455	2.19	9	6.90			12,464	2.19
2016 and thereafter	30,025	3.64	162	5.89			30,187	3.65
Total	$169,152	1.61	$427	5.49	$19,194	0.24	$188,773	1.48

Included in Systemwide Debt Securities are callable debt issues consisting of the following:

Year of Maturity	Amount	Range of Next Call Dates
2011	$ 1,036	January 2011-February 2011
2012	6,786	January 2011-December 2011
2013	7,682	January 2011-December 2011
2014	6,803	January 2011-December 2011
2015	6,336	January 2011-September 2012
2016 and thereafter	16,859	January 2011-June 2015
Total	$45,502	

The average maturity of Systemwide discount notes at December 31, 2010 and 2009 was 3.7 months and 3.0 months. Pursuant to authorizations by the Farm Credit Administration, the maximum amount of Systemwide discount notes, medium-term notes and global debt securities that Banks in the aggregate may have outstanding at any one time is currently $60 billion, $40 billion and $5 billion. There is no limit on the amount of Systemwide bonds that may be outstanding at any one time.

Systemwide Debt Securities are the joint and several obligations of the Banks. Payments of

principal and interest to the holders of Systemwide Debt Securities with an outstanding balance aggregating $188.773 billion at December 31, 2010 are insured by amounts held in the Insurance Fund as described in Note 7. Certain other bonds issued directly by individual Banks are the obligations solely of the issuing Bank. The aggregate amount of bonds issued directly by the Banks was $802 million at December 31, 2010 and $1.062 billion at December 31, 2009. All of these bonds mature in the following year, and had a weighted average interest rate of 0.12% for 2010 and 0.14% for 2009.

The Farm Credit Act and Farm Credit Administration regulations require each Bank to maintain specified eligible assets at least equal in value to the total amount of debt securities outstanding for which it is primarily liable as a condition for participation in the issuance of Systemwide Debt Securities. Each Bank was in compliance with these requirements as of December 31, 2010. At December 31, 2010, the combined Banks had specified eligible assets of $204.6 billion, as compared with $190.4 billion of Systemwide Debt Securities and other bonds and accrued interest payable at that date. The specified eligible asset requirement does not provide holders of the securities with a security interest in any assets of the Banks.

Farm Credit Administration regulations provide that, in the event a Bank is placed in liquidation, holders of Systemwide Debt Securities have claims against the Bank's assets, whether or not these holders file individual claims. Under these regulations, the claims of these holders are junior to claims relating to costs incurred by the receiver in connection with the administration of the receivership, claims for taxes, claims of secured creditors and claims of holders of bonds issued by the Bank individually to the extent such bonds are collateralized in accordance with the requirements of the Farm Credit Act. These regulations further provide that the claims of holders of Systemwide Debt Securities are senior to all claims of general creditors.

Amounts paid to dealers in connection with the sale of Systemwide Debt Securities are deferred and amortized to interest expense using the straight-line method (which approximates the interest method) over the term of the related indebtedness.

NOTE 10 — SUBORDINATED DEBT

The following table sets forth each issuance of subordinated debt outstanding as of December 31, 2010:

Bank	Issue Date	Amount	General Terms
AgriBank	July 2009	$ 500	9.125% unsecured subordinated notes due in 2019
Texas	September 2008	50	8.406% unsecured subordinated notes due in 2018
CoBank	April 2008	500	7.875% unsecured subordinated notes due in 2018
CoBank	June 2007	500	Three-month LIBOR plus 0.60%, reset quarterly, unsecured subordinated notes due in 2022
AgStar Financial Services, ACA	March 2010	100	9.0% note with a fixed-rate, payable semi-annually, unsecured subordinated notes due in 2025
Total		$1,650	

The proceeds of each issuance were used to increase each institution's regulatory permanent capital and total surplus pursuant to the Farm Credit Administration regulations and for general corporate purposes.

Subordinated debt is unsecured and subordinate to all other categories of creditors, including any claims of holders of Systemwide Debt Securities and general creditors, and senior to all classes of shareholders. Interest will be deferred if, as of the fifth business day prior to an interest payment date of the debt, 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 debt. During such a period, the System institution 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 debt is not considered a Systemwide Debt Security and is not guaranteed by the Farm Credit System or any Banks in the System, other than the issuing Bank. Payments on the subordinated debt are not insured by the Farm Credit Insurance Fund.

NOTE 11 — MANDATORILY REDEEMABLE PREFERRED STOCK

As of December 31, 2010, AgFirst FCB had 225,000 shares issued and outstanding of mandatorily redeemable cumulative preferred stock at $1,000 per share that is redeemable on December 15, 2016. Preferred stock dividends are payable at the rate of 8.393% per annum of the $1,000 per share par value. Beginning March 15, 2012, the rate will change to a floating rate equal to three-month LIBOR plus 3.615%. On or after the dividend payment date in December 2011, the preferred stock will be redeemable in whole or in part at the option of the Bank on any dividend payment date at its par value of $1,000 per share. Although the mandatorily redeemable preferred stock has not been included in capital for financial reporting purposes, this issuance of preferred stock qualifies as capital for certain regulatory purposes.

NOTE 12 — MERGER OF SYSTEM INSTITUTIONS

Effective November 30, 2009, two Associations within the U.S. AgBank District merged; on January 1, 2010, two Associations within the CoBank District merged; and on July 1, 2010, two Associations in the Texas District merged. Two other Associations in the Texas District merged on December 1, 2010. The primary reason for each of these mergers was based on a determination that the combined organizations would be financially and operationally stronger than either Association on a stand-alone basis. Each merger was accounted for under the acquisition method of accounting.

Each Association operates for the mutual benefit of their customer owners and other customers and not for the benefit of any other equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and their bylaws, the Associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of stock in one Association that were converted to shares of another Association had identical rights and attributes. For this reason, the conversion of stock pursuant to each merger occurred at a one-for-one exchange ratio. The management of each of these Associations believes that because the stock in each Association is fixed in value, the stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, each acquiring Association identified and estimated the acquisition date fair value of the equity interests of the acquired Association instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. These evaluations produced fair values of identifiable assets acquired and liabilities assumed that were substantially equal to the fair values of the member interests transferred in each merger. The excess value received by the acquiring Association from the acquired Association over the par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital.

The mergers did not have an impact on the System's results of operations because the incomes of the acquired Associations were previously reflected in the combined income statement.

The following table summarizes the fair values of the identifiable assets acquired and liabilities assumed as of:

	Fair Value		
	Total Assets Acquired	Total Liabilities Assumed	Net Assets Acquired
November 30, 2009	$ 985	$775	$210
January 1, 2010	1,058	877	181
July 1, 2010	111	98	13
December 1, 2010	70	59	11

The following table summarizes the loans acquired in the merger transactions:

	Loans Acquired at Fair Value	Loans Acquired at Contractual Amount	Gross Contractual Amount Not Expected to be Collected
November 30, 2009	$934	$ 922	$ 9
January 1, 2010	997	1,002	12
July 1, 2010	104	105	3
December 1, 2010	69	73	0

NOTE 13 — CAPITAL STRUCTURE

Preferred Stock

As of December 31, 2010 the System had preferred stock issued and outstanding of $2.125 billion that was issued separately by four Banks and three Associations. The preferred stock issued by the Banks is generally held by institutional investors or knowledgeable, high net worth individuals. The following table presents the general terms of each perpetual preferred stock issuance by the Banks (par amount in whole dollars):

Bank	Issue Date	Amount	Shares Issued and Outstanding	Par Amount	Security Type and Dividend Rate
CoBank	June 2001	$ 163.2	3,265,000	$ 50	Cumulative perpetual 7.814% payable quarterly(1)(4)
CoBank	November 2003	200.0	4,000,000	50	Cumulative perpetual 7.000% payable quarterly(2)
CoBank	July 2008	200.0	4,000,000	50	Non-cumulative subordinated perpetual 11.00% payable quarterly(3)
CoBank	August 2009	136.8	2,735,000	50	Non-cumulative subordinated perpetual 11.00% payable quarterly(4)
AgFirst	October 2003	150.0	150,000	1,000	Non-cumulative perpetual 7.300% payable semi-annually(5)
AgFirst	June 2007	250.0	250,000	1,000	Non-cumulative perpetual 6.585% payable semi-annually(6)
Texas	November 2003 and September 2005	182.0	200,000	1,000	Cumulative perpetual 7.561% payable semi-annually(7)
Texas	August 2010	300.0	300,000	1,000	Non-cumulative subordinated perpetual 10.00% payable semi-annually(8)
U.S. AgBank	March 2007	225.0	225,000	1,000	Non-cumulative perpetual 6.11% semi-annually(9)
		$1,807.0			

(1) Beginning July 1, 2011, the rate will change to a floating rate equal to 3-month LIBOR plus 2.72%. On July 1, 2016, the rate will increase an additional 200 basis points to 3-month LIBOR plus 4.72%. The dividend rate, however, will never fall below 7.814%. The preferred stock is not mandatorily redeemable at

any time, but on or after July 1, 2011 will be redeemable in whole or in part at the option of the Bank on any dividend payment date at its par value plus accrued and unpaid dividends to the redemption date. The Bank may not enter into any agreements restricting its ability to declare or pay preferred stock dividends.

(2) The preferred stock is not mandatorily redeemable at any time, but will be redeemable at the option of the Bank on any dividend payment date at par value plus accrued and unpaid dividends beginning January 2, 2009.

(3) Beginning July 1, 2013, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 6.79%. The preferred stock is not mandatorily redeemable at any time. However, it will be redeemable at par value, in whole or in part, at the Bank's option on July 1, 2013, and each July 1 thereafter.

(4) In August 2009, $136.8 million of CoBank's Series A preferred stock was exchanged for its newly-issued Series D non-cumulative subordinated perpetual preferred stock. The new Series D preferred stock carries an annual dividend rate of 11%. The preferred stock is not mandatorily redeemable at any time, but will be redeemable at par value, in whole or in part, at the Bank's option on October 1, 2014 and any dividend payment date thereafter. Series D preferred stock receives improved capital treatment under the Farm Credit Administration regulations, thereby enhancing CoBank's capital position. In connection with the exchange, holders of CoBank's Series A preferred stock agreed to amend the preferred stock purchase agreement, dated June 20, 2001, eliminating certain restrictions on CoBank's ability to make open market purchases, or exchanges, of the Series A preferred stock.

(5) The preferred stock is not mandatorily redeemable at any time, but will be redeemable at the option of the Bank on any dividend payment date at par value beginning with the December 2008 dividend payment date.

(6) The preferred stock is perpetual, non-cumulative, fixed-to-floating rate subordinated preferred stock. Dividends will be payable, when, as and if declared by the board of directors in its sole discretion, semi-annually in June and December at an annual rate equal to 6.585% of the par value of $1,000 per share up to the June 15, 2012 payment. Beginning June 15, 2012 dividends will be payable quarterly at a floating rate equal to 3-month LIBOR plus a margin equal to 1.13%.

(7) The dividend is paid semi-annually through the December 15, 2013 dividend payment date at a rate of 7.561%. Commencing with the March 15, 2014 dividend date, the dividend will be paid quarterly at a floating rate per annum equal to 3-month LIBOR plus 4.4575%. The preferred stock is not mandatorily redeemable at any time, but on or after December 15, 2013 will be redeemable in whole or in part, at the option of the Bank on any dividend payment date, at its par value plus accrued and unpaid dividends to the redemption date.

(8) The stock is non-cumulative subordinated perpetual preferred stock. Dividends will be paid, when, as and if declared by the board of directors in its sole discretion, semi-annually on the fifteenth day of June and December, commencing December 15, 2010, at an annual fixed rate of 10% of par value of $1,000 per share.

(9) The stock is perpetual, non-cumulative, fixed-to-floating rate preferred stock. Dividends will be paid, when, as and if declared by the board of directors in its sole discretion, semi-annually at an annual rate of 6.11% from initial issuance up to July 10, 2012. Beginning October 10, 2012, dividends will be payable quarterly at an annual rate equal to 3-month LIBOR plus 1.18%.

In addition, three Associations had Class H preferred stock outstanding of $318 million at December 31, 2010. The purchase of this preferred stock is limited to existing common stockholders of each issuing Association. The Association's board of directors sets the dividend rate, and retirement of the stock is at the discretion of the board.

Capital Stock and Participation Certificates

In accordance with the Farm Credit Act, each borrower, as a condition of borrowing, is generally required to invest in capital stock or participation certificates of the Bank or Association that makes the loan. The statutory minimum amount of capital investment required for borrowers is 2% of the loan or one thousand dollars, whichever is less. The Associations are required to purchase stock in their affiliated Bank. The different classes of capital stock and participation certificates and the manner in which capital stock and participation certificates are issued, retired and transferred are set forth in the respective Bank's or Association's bylaws. The Bank and/or Association generally has a first lien on the capital stock and participation certificates as collateral for the repayment of the borrower/stockholder loan.

In the case of Associations, each borrower purchasing capital stock is generally entitled to one vote as a stockholder regardless of the number of shares held. The borrower usually does not purchase capital stock for cash; rather, the stock purchase is typically made by adding the aggregate par value of the stock to the principal amount of the related loan obligation.

Regulations concerning capitalization bylaws and the issuance and retirement of System equities provide that equities issued on or after October 6, 1988 must qualify as at-risk capital of System institutions. The retirement of at-risk capital must be solely at the discretion of the board of directors and not based on a date certain or on the occurrence of any event, such as the repayment of the borrower's loan.

The boards of directors of individual Banks and Associations generally may authorize the payment of dividends or patronage refunds as provided for in their respective bylaws. The payment of dividends and/or

distribution of earnings is subject to regulations that establish minimum at-risk capital standards, as discussed below.

Additional Paid In Capital

The additional paid in capital represents the excess value received by the acquiring Association from the acquired Association over the par-value of capital stock and participation certificates issued in the merger between the two Associations. Additional paid in capital is considered unallocated surplus for purposes of shareholder distributions. Generally, patronage is paid out of current year earnings and as such, this would not be paid out in the form of patronage. In the case of liquidation, additional paid in capital would be treated as unallocated surplus and distributed to shareholders after other obligations of the Association had been satisfied.

Capital consisted of the following at December 31, 2010:

	Combined Banks	Combined Associations	Combination Entries	System Combined
Preferred stock	$ 1,807	$ 318		$ 2,125
Capital stock and participation certificates	4,518	544	$(3,520)	1,542
Protected borrower stock		7	(7)	
Additional paid-in-capital		393		393
Restricted capital — Insurance Fund			3,226	3,226
Accumulated other comprehensive loss	(253)	(62)	(856)	(1,171)
Surplus	6,304	20,968	(136)	27,136
Total capital	$12,376	$22,168	$(1,293)	$33,251

Combined System surplus reflected net eliminations of $136 million representing transactions between the Banks, the Associations, and/or the Insurance Fund primarily related to surplus allocations by certain Banks to their Associations. The Associations owned capital stock and participation certificates of the Banks amounting to approximately $3.5 billion. These amounts have been eliminated in the accompanying combined financial statements. Restricted capital is available only for the uses described in Note 7 and is not available for payment of dividends or patronage refunds. Accumulated other comprehensive loss, net of tax, at December 31, 2010 and 2009 was comprised of the following components:

	2010	2009
Unrealized gains (losses) on investments available-for-sale, net	$ 24	$ (406)
Other-than-temporary impairment on investments available-for-sale	(179)	(210)
Unrealized (losses) gains on cash flow hedges, net	(39)	23
Pension and other benefit plans	(977)	(965)
	$(1,171)	$(1,558)

As discussed in Notes 9 and 22, only the Banks are statutorily liable for the payment of principal and interest on Systemwide Debt Securities. Under each Bank's bylaws, the Bank is authorized under certain circumstances to require its affiliated Associations and certain other equity holders to purchase additional Bank equities. In most cases, the Banks are limited as to the amounts of these purchases that may be required, generally with reference to a percentage of the Association's or other equity holder's direct loan from the Bank, and calls for additional equity investments may be subject to other limits or conditions. However, the Banks also generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced District operating and financing policies.

In case of liquidation or dissolution, preferred stock, capital stock, participation certificates and unallocated surplus would be distributed to equity holders, after the payment of all liabilities in accordance with Farm Credit Administration regulations, in the following order: (1) retirement of preferred stock at par, (2) retirement of all common stock and participation

certificates at par, (3) retirement of all patronage surplus in amounts equal to the face amount of the applicable nonqualified written notices of allocation or such other notice, and (4) remaining unallocated surplus and reserves would be paid to the holders of voting stock, nonvoting stock and participation certificates in proportion to patronage to the extent possible.

Farm Credit Administration's capital regulations require that the Banks and Associations achieve and maintain permanent capital of at least seven percent of risk-adjusted assets. In addition, Farm Credit Administration regulations require that: (1) all System institutions achieve and maintain a total surplus ratio of at least seven percent of risk-adjusted assets and a core surplus ratio of at least three and one-half percent of risk-adjusted assets and (2) all Banks achieve and maintain a net collateral ratio of at least 103 percent. Failure of an institution to meet any of these capital requirements may result in certain discretionary actions by the Farm Credit Administration that, if undertaken, could have a direct effect on the institution's financial and operational performance. At December 31, 2010, all System institutions reported compliance with these standards, except for two Associations. Ranges of capital ratios reported by System institutions at December 31, 2010 were as follows:

System Institutions	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio***	Net Collateral Ratio
Banks*	14.3% - 22.0%	14.0% - 21.2%	8.4% - 13.8%	105.6% - 108.0%
Associations	11.3% - 28.4%	11.0% - 28.0%	2.9%** - 24.4%	Not Applicable
Regulatory minimum required	7.0%	7.0%	3.5%	103%****

* See Note 22 for each Bank's permanent capital ratio and net collateral ratio at December 31, 2010 and 2009.

** Two Associations with assets of less than $450 million and $300 million had core surplus ratios of 3.1% and 2.9%. All other Associations had a core surplus ratio in excess of 10.3%.

*** The Farm Credit Administration determined that one Bank should include a significant portion of its capital stock and participation certificates in its core surplus, subject to certain conditions, on a temporary basis that would likely continue until the earlier of December 31, 2012 or when the Farm Credit Administration promulgates a final capital rule that would be inconsistent with this treatment. As part of this determination, the Farm Credit Administration also imposed a requirement that the core surplus ratio be calculated excluding capital stock and participation certificates and established a 3.0% minimum for this ratio.

**** In connection with preferred stock and subordinated debt offerings, the Banks are required by the Farm Credit Administration to maintain a minimum net collateral ratio of 104%.

System institutions are prohibited from reducing capital by retiring stock (other than protected borrower stock) or making certain distributions to shareholders if, after or due to the retirement or distribution, the institution would not meet the minimum capital adequacy standards established by the Farm Credit Administration under the Farm Credit Act.

By regulation, the Farm Credit Administration is empowered to direct a transfer of funds or equities by one or more Banks or Associations to another Bank or Association, under specified circumstances. The System has never been called on to initiate any transfers pursuant to this regulation and is not aware of any proposed action under this regulation.

NOTE 14 — EMPLOYEE BENEFIT PLANS

The Banks and substantially all Associations participate in defined benefit retirement plans. The Banks and Associations, except for CoBank and its related Associations, generally sponsor multi-employer plans that can not be attributed to any individual entity. Thus, these plans are recorded at the combined District level. All retirement plans are noncontributory and benefits are based on salary and years of service. The Banks and Associations froze participation in their defined benefit pension plans and offered defined contribution retirement plans to all employees hired subsequent to the freeze. In addition, System institutions provide certain healthcare and other postretirement benefits to eligible retired employees. Employees of System institutions may become eligible for healthcare and other postretirement benefits if they reach normal retirement age while working for the System.

The following tables set forth the funding status and the amounts recognized in the System's Combined Statement of Condition for pension and other postretirement benefit plans:

	Pension Benefits December 31,		Other Benefits December 31,	
	2010	2009	2010	2009
Change in benefit obligation:				
Benefit obligation at beginning of year	$2,440	$2,177	$ 215	$ 208
Service cost	63	59	5	4
Interest cost	138	134	12	13
Plan participants' contributions			2	2
Plan amendments	3	1		
Actuarial loss (gain)	138	159	21	(1)
Benefits paid	(116)	(90)	(12)	(11)
Benefit obligation at end of year	$2,666	$2,440	$ 243	$ 215
Change in plan assets:				
Fair value of plan assets at beginning of year	$1,722	$1,354		
Actual return on plan assets	212	295		
Employer contributions	119	163	$ 10	$ 9
Plan participants' contributions			2	2
Benefits and premiums paid	(116)	(90)	(12)	(11)
Fair value of plan assets at end of year	$1,937	$1,722	$ 0	$ 0
Funded status at end of year	$ (729)	$ (718)	$(243)	$(215)
Amounts recognized in the balance sheet consist of:				
Pension asset	$ 15	$ 17		
Pension liability	(744)	(735)	$(243)	$(215)
Net amount recognized	$ (729)	$ (718)	$(243)	$(215)

The accumulated benefit obligation for all defined benefit pension plans was $2.323 billion, $2.055 billion and $1.850 billion at December 31, 2010, 2009 and 2008.

The following represent the amounts included in accumulated other comprehensive loss (pre-tax) at December 31:

	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
Net actuarial loss	$981	$995	$ 37	$ 17
Prior service costs	7	5	(24)	(29)
Transition asset	(1)	(1)		
Total amount recognized in AOCL	$987	$999	$ 13	$(12)

Information for pension plans with an accumulated benefit obligation in excess of plan assets.

	December 31,	
	2010	2009
Projected benefit obligation	$2,311	$2,113
Accumulated benefit obligation	2,010	1,772
Fair value of plan assets	1,610	1,420

The net periodic pension expense for defined benefit plans and other postretirement benefit plans included in the Combined Statement of Income is comprised of the following:

	Pension Benefits For The Years Ended December 31,			Other Benefits For The Years Ended December 31,		
	2010	2009	2008	2010	2009	2008
Service cost	$ 63	$ 59	$ 55	$ 5	$ 4	$ 4
Interest cost	138	134	124	12	13	13
Expected return on plan assets	(143)	(127)	(155)			
Net amortization and deferral	79	75	20	(4)	(4)	(8)
Curtailments	2	1	2			(1)
Net periodic benefit cost	$ 139	$ 142	$ 46	$13	$13	$ 8

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) are as follows:

	Pension Benefits For The Years Ended December 31,		Other Benefits For The Years Ended December 31,	
	2010	2009	2010	2009
Net actuarial loss (gain)	$ 64	$ (8)	$21	$ (1)
Prior service cost	3	3		
Transition asset		(4)		
Amortization of net actuarial loss (gain)	(78)	(75)	(1)	(1)
Amortization of prior service cost	(1)		5	5
Total recognized in other comprehensive income (loss)	(12)	(84)	25	3
Total recognized in net periodic benefit cost and other comprehensive income	$127	$ 58	$38	$16

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year is $71 million. The estimated prior service credit for the other defined benefit postretirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year is $5 million and an estimated net loss of $3 million for other benefits.

Weighted average assumptions used to determine benefit obligations at December 31:

	Pension Benefits		
	2010	2009	2008
Discount rate	5.15%-5.51%	5.70%-6.04%	6.27%-6.35%
Rate of compensation increase	3.50%-5.00%	4.50%-6.00%	4.50%-5.33%

	Other Benefits		
	2010	2009	2008
Discount rate	5.15%-5.70%	5.70%-6.05%	6.25%-6.35%

Weighted average assumptions used to determine net periodic benefit cost for years ended December 31:

	Pension Benefits		
	2010	2009	2008
Discount rate	5.65%-6.04%	6.26%-6.35%	6.35%-6.50%
Expected long-term return on plan assets	7.50%-8.25%	7.50%-8.50%	8.00%-8.50%
Rate of compensation increase	4.50%-6.00%	4.50%-7.00%	4.46%-5.00%

	Other Benefits		
	2010	2009	2008
Discount rate	5.65%-6.05%	6.25%-6.35%	6.00%-6.50%

The expected long-term rate of return assumption is determined independently for each defined benefit pension plan and for each other postretirement benefit plan. Generally, plan trustees use historical return information to establish a best-estimate range for each asset class in which the plans are invested. Plan trustees select the most appropriate rate for each plan from the best-estimate range, taking into consideration the duration of plan benefit liabilities and plan sponsor investment policies.

For measurement purposes, annual rates of increase of 7.50% to 10.00% in the per capita cost of covered health benefits were assumed for 2011. The rates were assumed to step down to 5.00% in various years beginning in 2016 — 2020, and remain at that level thereafter.

Assumed healthcare trend rates have a significant effect on the amounts reported for the health-care plans. A one percentage point change in the assumed healthcare cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on total of service and interest cost	$ 3	$(14)
Effect on postretirement benefit obligation	31	(26)

Plan Assets

The trustees of each defined benefit pension plan and other postretirement benefit plan set investment policies and strategies for the plan, including target allocation percentages for each category of plan asset. Generally, the funding objectives of the pension plans are to achieve and maintain plan assets adequate to cover the accumulated benefit obligations and to provide competitive investment returns and reasonable risk levels when measured against appropriate benchmarks. Plan trustees develop asset allocation policies based on plan objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. Substantially all postretirement healthcare plans have no plan assets and are funded on a current basis by employer contributions and retiree premium payments.

	Pension Benefits Target Allocation for Next Year
Asset Category	
Equity securities	40%-70%
Debt securities	28%-50%
Other	0%-10%

The fair values of the System's pension plan assets at December 31, 2010 and 2009 by asset category are as follows:

December 31, 2010	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 18			$ 18
Mutual Funds:				
Domestic funds	56	$ 351		407
International funds	25	297		322
Bond funds	96	215		311
Real estate equity funds		15		15
Hedged equity funds		23	$22	45
Other funds	15	69		84
Fixed income funds		230		230
Investment insurance contracts			9	9
Trust funds		428		428
Limited partnerships			68	68
Total	$210	$1,628	$99	$1,937

December 31, 2009	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 48			$ 48
Mutual Funds:				
Domestic funds	193	$276		469
International funds	22	186		208
Bond funds	129	68		197
Real estate equity funds		15		15
Hedged equity funds		28	$21	49
Other funds		42		42
Fixed income funds	99	142		241
Investment insurance contracts			10	10
Trust funds	194	186		380
Limited partnerships			63	63
Total	$685	$943	$94	$1,722

The table below represents a reconciliation of all Level 3 pension plan assets measured at fair value:

	Hedged Equity Funds	Investment Insurance Contracts	Limited Partnerships	Total Fair Value
Balance at December 31, 2009	$21	$10	$63	$94
Actual return on plan assets:				
Held at reporting date	1		5	6
Sold during the period	—	(1)	—	(1)
Balance at December 31, 2010	$22	$ 9	$68	$99

	Hedged Equity Funds	Investment Insurance Contracts	Limited Partnerships	Total Fair Value
Balance at December 31, 2008	$18	$10	$57	$85
Actual return on plan assets related to assets still held at reporting date	3	—	6	9
Balance at December 31, 2009	$21	$10	$63	$94

Note: There were no plan assets for other benefits at December 31, 2010 and 2009.

Concentrations of Credit Risk

The plan assets are diversified into various investment types as shown in the preceding table. The plan assets are spread among various mutual funds, with numerous fund managers. Diversification is also obtained by selecting fund managers whose funds are not concentrated in individual stock, or individual countries for the international funds.

Contributions

The Banks and Associations expect to contribute $122 million to their pension plans and $11 million to their other postretirement benefit plans in 2011.

The Banks and Associations expect to pay the following benefit payments, which reflect expected future service, as appropriate.

Year	Pension Benefits	Other Benefits
2011	$ 151	$12
2012	164	13
2013	170	13
2014	179	14
2015	191	15
2016 to 2020	1,073	81

The Banks and Associations also participate in defined contribution savings plans. Certain plans require Banks and Associations to match a percentage of employee contributions. Employer contributions to these plans were $55 million, $51 million and $51 million for the years ended December 31, 2010, 2009 and 2008.

NOTE 15 — INCOME TAXES

The provision for income taxes was comprised of the following amounts:

	For The Years Ended December 31,		
	2010	2009	2008
Current:			
Federal	$161	$108	$ 55
State and local	21	24	11
Deferred:			
Federal	33	65	76
State	3	(2)	11
Provision for income taxes	$218	$195	$153

The deferred income tax provision (benefit) results from differences between amounts of assets and liabilities as measured for income tax return and financial reporting purposes. The significant components of deferred tax assets and liabilities at December 31, 2010 and 2009 were as follows:

	December 31,	
	2010	2009
Deferred tax assets:		
Allowance for loan losses	$ 318	$ 302
Employee benefit plan obligations	67	58
Unrealized net losses on investments available-for-sale		1
Loss carryforwards	53	35
Other	114	85
Gross deferred tax assets	552	481
Less: valuation allowance	(161)	(134)
Deferred tax assets, net of valuation allowance	391	347
Deferred tax liabilities:		
Direct financing leases	(495)	(416)
Pensions	(23)	(28)
Patronage allocated by Banks to Associations	(27)	(24)
Unrealized net gains on investments available-for-sale	(23)	
Depreciation	(4)	(3)
Other	(36)	(34)
Gross deferred tax liabilities	(608)	(505)
Net deferred tax liability	$(217)	$(158)
System entities with net deferred tax assets (included in other assets)	$ 33	$ 31
System entities with net deferred tax liabilities (included in other liabilities)	(250)	(189)
	$(217)	$(158)

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income from continuing operations as a result of the following differences:

	Year Ended December 31,		
	2010	2009	2008
Federal tax at statutory rate	$1,262	$1,035	$1,043
State tax, net	18	26	17
Effect of nontaxable entities	(912)	(802)	(765)
Patronage distributions allocated by taxable entities	(221)	(166)	(193)
Other	71	102	51
Provision for income taxes	$ 218	$ 195	$ 153

System entities have unrecognized tax benefits for which liabilities have been established. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at December 31, 2009	$ 8
Additions based on tax positions related to the current year	1
Reductions for tax positions of prior years	(3)
Balance at December 31, 2010	$ 6

System entities recognize interest and penalties related to unrecognized tax benefits as an adjustment to income tax expense. The amount of interest recognized in 2010 was $1.4 million and the total amount of penalties recognized in 2010 was $158 thousand. At December 31, 2010, $245 thousand of interest and no penalties were accrued. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $5.7 million at December 31, 2010. System entities did not have any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. The tax years that remain open for federal and major state income tax jurisdictions are 2006 and forward.

NOTE 16 — FAIR VALUE MEASUREMENTS

Accounting 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. See Note 2 — Summary of Significant Accounting Policies for additional information.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2010 and 2009 for each of the fair value hierarchy values are summarized below:

December 31, 2010	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Federal funds and securities purchased under resale agreements		$ 678		$ 678
Commercial paper, bankers' acceptances, certificates of deposit and other securities		4,823		4,823
U.S. Treasury securities		4,504		4,504
U.S. agency securities		895		895
Mortgage-backed securities		23,810	$2,520	26,330
Asset-backed securities		583	466	1,049
Derivative assets		1,401		1,401
Assets held in non-qualified benefits trusts	$ 90			90
Total assets	$ 90	$36,694	$2,986	$39,770
Liabilities:				
Derivative liabilities		$ 109		$ 109
Collateral liabilities	$189	910		1,099
Standby letters of credit		4	$ 16	20
Total liabilities	$189	$ 1,023	$ 16	$ 1,228

December 31, 2009	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Federal funds and securities purchased under resale agreements		$ 880		$ 880
Commercial paper, bankers' acceptances, certificates of deposit and other securities		5,850		5,850
U.S. Treasury securities		2,409		2,409
U.S. agency securities		869		869
Mortgage-backed securities		21,821	$2,641	24,462
Asset-backed securities		588	711	1,299
Derivative assets		1,367		1,367
Assets held in non-qualified benefits trusts	$ 87			87
Total assets	$ 87	$33,784	$3,352	$37,223
Liabilities:				
Systemwide Debt Securities		$ 100		$ 100
Derivative liabilities		131		131
Collateral liabilities	$172	928		1,100
Standby letters of credit		5	$ 16	21
Total liabilities	$172	$ 1,164	$ 16	$ 1,352

The tables below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis:

	Mortgage-backed Securities	Asset-backed Securities	Standby Letters of Credit
Balance at December 31, 2009	$2,641	$ 711	$16
Total gains or (losses) realized/unrealized:			
Included in earnings	(25)	(46)	
Included in other comprehensive loss	204	92	
Purchases, issuances and settlements, net	(400)	(298)	
Transfers out of Level 3	100	7	
Balance at December 31, 2010	$2,520	$ 466	$16
The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2010	$ 37	$ 53	$ 0

	Commercial Paper, Bankers' Acceptances, Certificates of Deposit and Other Securities	Mortgage-backed Securities	Asset-backed Securities	Derivative Assets	Standby Letters of Credit
Balance at December 31, 2008	$ 100	$ 4,916	$1,283	$ 1	$13
Total gains or (losses) realized/unrealized:					
Included in earnings		(45)	(85)	(1)	
Included in other comprehensive loss		(155)	(59)		
Purchases, issuances and settlements, net		(865)	(418)		3
Transfers out of Level 3	(100)	(1,210)	(10)		
Balance at December 31, 2009	$ 0	$ 2,641	$ 711	$ 0	$16
The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2009	$ 0	$ 49	$ 86	$ 0	$ 0

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2010 and 2009 for each of the fair value hierarchy values and the losses are summarized below:

December 31, 2010	Fair Value Measurement Using		Total Fair Value	Total Losses
	Level 2	Level 3		
Assets:				
Loans	$111	$1,418	$1,529	$(170)
Other property owned		478	478	(44)

December 31, 2009	Fair Value Measurement Using		Total Fair Value	Total Losses
	Level 2	Level 3		
Assets:				
Loans	$234	$1,960	$2,194	$(38)
Other property owned		175	175	(6)

Valuation Techniques

As more fully discussed in Note 2 — Summary of Significant Accounting Policies, FASB guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used by the System for assets and liabilities:

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. This would include U.S. Treasury and certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-based securities and certain mortgage-backed securities including private label-FHA/VA securities and those issued by Farmer Mac.

As permitted under Farm Credit Administration regulations, the Banks are authorized to hold eligible investments. The regulations define eligible investments by specifying credit rating criteria, final maturity limit, and percentage of portfolio limit for each investment type. At the time of purchase, mortgage-backed and asset-backed securities must be triple-A rated by at least one Nationally Recognized Statistical Rating Organization. The triple-A rating requirement puts the Banks in a position to hold the senior tranches of securitizations. The underlying loans for mortgage-backed securities are residential mortgages, while the underlying loans for asset-backed securities are home equity lines of credit, small business loans, equipments loans or student loans.

To estimate the fair value of the majority of the investments held, the Banks obtain prices from third party pricing services. For the valuation of securities not actively traded, including certain non-agency securities, the Banks utilize either a third party cash flow model or an internal model. Generally, the Banks average the price obtained from the pricing service with the price generated by its party or internal cash flow model. The significant inputs for the valuation models include yields, probability of default, loss severity and prepayment rates.

Derivatives

Exchange-traded derivatives valued using quoted prices would be classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options and credit default swaps. Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively or have trade activity that is one way are classified within Level 3 of the valuation hierarchy.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, primarily the LIBOR swap curve and volatility assumptions about future interest rate movements.

Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Systemwide Debt Securities

Systemwide Debt Securities for which the fair value option has been elected are classified as Level 2 as the inputs into the valuation are generally based on readily observable market-based pricing information. The discounted cash flow method is used based on discounting of rates for new debt securities with similar characteristics including maturity date. The fair value is usually corroborated using observable inputs

such as the Treasury Yield Curve, the Farm Credit Yield Curve and the LIBOR Swap Curve.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral dependent loans for which real estate is the collateral. 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 real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Collateral Liabilities

Substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached. The market value of collateral liabilities is its face value plus accrued interest that approximates fair value.

NOTE 17 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the System's financial instruments at December 31, 2010 and 2009. Quoted market prices are generally not available for certain System financial instruments. 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 combined System financial instruments are as follows:

	December 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash, Federal funds sold and securities purchased under resale agreements	$ 4,995	$ 4,995	$ 3,602	$ 3,602
Investments	41,287	41,352	38,619	38,645
Loans	175,351	176,792	164,830	166,356
Allowance for loan losses	(1,447)		(1,359)	
Net loans	173,904	176,792	163,471	166,356
Tobacco contract receivables	578	592	689	712
Derivative assets	1,401	1,401	1,367	1,367
Financial liabilities:				
Systemwide Debt Securities	(188,773)	(190,343)	(177,296)	(178,736)
Subordinated debt	(1,650)	(1,702)	(1,550)	(1,488)
Other bonds	(802)	(802)	(1,062)	(1,062)
Other interest bearing liabilities	(406)	(406)	(403)	(403)
Mandatorily redeemable preferred stock	(225)	(262)	(225)	(254)
Derivative liabilities	(109)	(109)	(131)	(131)
Other financial instruments:				
Commitments to extend credit		(122)		(107)
Standby letters of credit	(20)	(20)	(21)	(21)

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

A. *Cash, Federal Funds Sold and Securities Purchased Under Resale Agreements:* For cash and overnight investments, the carrying amount is a reasonable estimate of fair value. The fair value of term Federal funds sold and securities purchased under resale agreements is based on currently quoted market prices, which are reflective of current interest rates.

B. *Investment Securities:* Includes available-for-sale investments for liquidity, mission-related and other purposes, as well as held-to-maturity investments. See Note 16 for the valuation technique used to determine the fair value of investments.

C. *Loans:* Because no active market exists for the System's loans, fair value is estimated by discounting the expected future cash flows using the Banks' and/or the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Banks' and/or the Associations' loan rates as well as managements' estimates of credit risk, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

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

Fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty

of continued cash flows. For collateral dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral, as more fully discussed in Note 16.

D. *Bonds and Notes:* Systemwide Debt Securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between System debt instruments and Treasury issues.

E. *Subordinated Debt:* The fair value of subordinated debt is estimated based upon quoted market prices.

E. *Derivative Assets and Liabilities:* Exchange-traded derivatives are valued using quoted prices. However, the majority of the derivative positions are valued using internally developed models that use as their basis readily observable market parameters. See Note 16 for the valuation technique used to determine the fair value of derivatives.

F. *Commitments to Extend Credit and Standby Letters of Credit:* The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit approximates the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

NOTE 18 — DERIVATIVE PRODUCTS AND HEDGING ACTIVITIES

The Banks and Associations maintain 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. The Banks' and Associations' 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 assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Banks' 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 assets and liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the Banks' gains and losses on the derivative instruments that are linked to these hedged assets and liabilities. The Banks consider the strategic 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.

In addition, the Banks enter 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. The Banks may also enter into derivatives with their customers as a service to enable them to transfer, modify or reduce their interest rate risk by transferring this risk to the Bank. The Banks substantially offset this risk by concurrently entering into offsetting agreements with non-System institutional counterparties. Interest rate swaps allow the Banks to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the Bank if floating rate borrowings were made directly. These interest rate swaps also help the Banks to manage their liquidity. Under interest rate swap arrangements, the Banks 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.

A substantial amount of the System's assets are interest-earning assets (principally loans and investments) that tend to be medium-term floating-rate

instruments while the related interest-bearing liabilities tend to be short- or medium-term fixed rate obligations. Given this asset-liability mismatch, interest rate swaps in which a Bank pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on a Bank's net interest income. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, a Bank also enters into swaps in which it receives the floating rate and pays the fixed rate (pay fixed swaps) when necessary to reduce its net position.

The Banks may purchase interest rate options, such as caps, in order to reduce the impact of rising interest rates on their floating-rate debt, and floors, in order to reduce the impact of falling interest rates on their floating-rate assets. The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during 2010 is summarized in the following table:

	Receive-Fixed Swaps	Pay-Fixed and Amortizing Pay-Fixed Swaps	Floating-for-Floating and Amortizing Floating-for-Floating	Interest Rate Caps	Other Derivatives	Total
Balance at beginning of period	$38,043	$ 2,175	$1,350	$2,808	$ 2,242	$ 46,618
Additions	4,352	1,632	750	1,279	4,265	12,278
Maturities/amortization	(8,106)	(1,069)	(150)	(201)	(3,561)	(13,087)
Terminations	(475)	(130)			(153)	(758)
Balance at end of period	$33,814	$ 2,608	$1,950	$3,886	$ 2,793	$ 45,051

By using derivative products, Banks expose themselves to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank'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 a Bank, thus creating a repayment (credit) risk for a Bank. When the fair value of the derivative contract is negative, a Bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the Banks almost exclusively deal with non-customer counterparties that have an investment grade or better credit rating from a major rating agency, and also monitor the credit standing and levels of exposure to individual counterparties. The Banks do not anticipate nonperformance by any of these counterparties. The Banks typically enter into master agreements that contain netting provisions. These provisions allow the Banks 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. However, derivative contracts must be reflected in the financial statements on a gross basis regardless of the netting agreement. A majority of derivative contracts are supported by collateral arrangements with counterparties. The System's exposure to counterparties, net of $1.265 billion of collateral at December 31, 2010 and $1.204 billion at December 31, 2009, was $232 million and $264 million. The collateral consisted of $1.099 billion of cash and $166 million in securities at December 31, 2010, as compared with $1.100 billion of cash and $104 million in securities at December 31, 2009.

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

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 (principally, debt securities) attributable

to the hedged risk are recognized in current earnings. The System includes 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. The amount of the gains on interest rate swaps recognized in interest expense for 2010 was $4 million, while the amount of the losses on the Systemwide Debt Securities was $11 million.

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 "gains (losses) on derivative transactions" in the statement of income.

Fair Values of Derivative Instruments

The following table represents the fair value of derivative instruments:

	Balance Sheet Classification Assets	Fair Value at December 31, 2010	Fair Value at December 31, 2009	Balance Sheet Classification Liabilities	Fair Value at December 31, 2010	Fair Value at December 31, 2009
Derivatives designated as hedging instruments:						
Receive-fixed swaps	Other assets	$1,312	$1,246	Other liabilities	$ 30	$ 71
Pay-fixed and amortizing pay-fixed swaps	Other assets	31	48	Other liabilities	39	22
Interest rate caps	Other assets	20	21			
Floating-for-floating and amortizing floating-for-floating swaps	Other assets	2		Other liabilities	7	1
Foreign exchange contracts	Other assets	1	5	Other liabilities	2	
Other derivative products				Other liabilities	9	
Total derivatives designated as hedging instruments		$1,366	$1,320		$ 87	$ 94
Derivatives not designated as hedging instruments:						
Derivatives entered into on behalf of customers	Other assets	$ 83	$ 76	Other liabilities	$ 68	$ 65
Receive-fixed swaps				Other liabilities	1	1
Total derivatives not designated as hedging instruments		$ 83	$ 76		$ 69	$ 66
Total derivatives		$1,449	$1,396		$156	$160

The following table sets forth the amount of gain recognized in the Statement of Income for the years ended December 31, 2010 and 2009:

Derivatives-Fair Value Hedging Relationships	Location of Gain/(Loss) Recognized in Statement of Income	2010	2009
Receive-fixed swaps	Interest expense	$1	$8

The following table sets forth the effect of derivative financial instruments in cash flow hedging relationships:

Derivatives-Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) December 31, 2010	2009	Location of Gain or (Loss) Reclassification from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) December 31, 2010	2009	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) December 31, 2010	2009
Pay-fixed and amortizing pay-fixed swaps	$(35)	$84	Interest expense	$ 1	$ 2			
Floating-for-floating and amortizing floating-for-floating swaps	(4)	(4)	Interest expense	5	6			
Interest rate caps	(15)	5	Interest expense	(3)	(8)			
Foreign exchange contracts						Interest expense	$(1)	$(1)
Other derivative products	(9)	1	Interest income	(1)	2		—	—
Total	$(63)	$86		$ 2	$ 2		$(1)	$(1)

The following table sets forth the amount of loss recognized in the Statement of Income related to derivatives not designated as hedging instruments:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Statement of Income	For The Year Ended December 31, 2010	2009
Receive-fixed swaps	Noninterest income	$1	$(7)
Floating-for-floating and amortizing floating- for-floating swaps	Noninterest income		1
Derivatives entered into on behalf of customers	Noninterest income	1	1
Total		$2	$(5)

NOTE 19 — RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Banks and Associations may enter into loan transactions with their officers and directors and non-System organizations with which such persons may be associated. These loans are subject to special approval requirements contained in Farm Credit Administration regulations and are, in the view of the lending System institution's management, made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. All related party loans were made in accordance with established policies and on the same terms as those prevailing at the time for comparable transactions, except for one loan for $4 million to a company affiliated with a System institution director. The interest rate on this loan was marginally lower than the rate on similar loans to unrelated borrowers.

Total loans outstanding to such persons were $2.2 billion at December 31, 2010 and $2.0 billion at December 31, 2009. During 2010 and 2009, $4.8 billion and $4.3 billion of new loans were made to such persons and repayments totaled $4.6 billion and $4.2 billion. In the opinions of Bank and Association managements, all of such loans outstanding at December 31, 2010 did not involve more than a normal risk of collectibility, except for loans to four Association directors totaling $64.9 million.

NOTE 20 — COMMITMENTS AND CONTINGENCIES

At December 31, 2010, various lawsuits were pending or threatened against System institutions. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending legal actions will not have a material adverse impact on the System's combined results of operations or financial position.

The Banks and Associations may participate in financial instruments with off-balance-sheet risk to

satisfy the financing needs of their borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and standby letters of credit. In the normal course of business, various commitments are made to customers, such as commitments to extend credit and letters of credit, which represent credit-related financial instruments with off-balance-sheet risk.

A summary of the contractual amount of credit-related instruments is presented in the following table:

	December 31, 2010	December 31, 2009
Commitments to extend credit	$52,993	$57,718
Standby letters of credit	2,152	2,899
Commercial and other letters of credit	429	292

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their contractual amounts are not reflected on the balance sheet until funded or drawn upon. Standby letters of credits are reflected on the balance sheet at fair value of the liability. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. No material losses are anticipated as a result of these transactions.

NOTE 21 — QUARTERLY FINANCIAL DATA (UNAUDITED)

The unaudited results of operations by quarter for the past three years are presented below:

	2010 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net interest income	$1,414	$1,429	$1,480	$1,567
Provision for loan losses	(171)	(145)	(158)	(193)
Net noninterest expense	(377)	(350)	(338)	(445)
Provision for income taxes	(64)	(52)	(35)	(67)
Net income	$ 802	$ 882	$ 949	$ 862

	2009 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net interest income	$1,273	$1,327	$1,342	$1,450
Provision for loan losses	(246)	(228)	(259)	(192)
Net noninterest expense	(366)	(369)	(316)	(371)
Provision for income taxes	(46)	(48)	(46)	(55)
Net income	$ 615	$ 682	$ 721	$ 832

	2008 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net interest income	$1,137	$1,170	$1,198	$1,197
Provision for loan losses	(33)	(30)	(61)	(284)
Net noninterest expense	(287)	(303)	(280)	(355)
Provision for income taxes	(57)	(44)	(40)	(12)
Net income	$ 760	$ 793	$ 817	$ 546

NOTE 22 — COMBINING BANK-ONLY INFORMATION

The following condensed combining statements include the statement of condition, statement of income and statement of changes in capital for the combined Banks without the affiliated Associations or other System institutions.

Combining Bank-Only Statement of Condition

December 31, 2010

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	U.S. AgBank, FCB	CoBank, ACB	Combination Entries	Combined Banks
Assets							
Cash	$ 1,366	$ 51	$ 437	$ 246	$ 1,923		$ 4,023
Federal funds sold and securities purchased under resale agreements	9	649	20				678
Investments (Note 3)	8,129	9,998	3,077	4,696	12,617		38,517
Loans							
To Associations(1)	14,778	52,574	7,454	19,273	15,396		109,475
To others	6,127	6,943	3,010	917	34,597	$(412)	51,182
Less: allowance for loan losses	(15)	(13)	(29)	(2)	(401)		(460)
Net loans	20,890	59,504	10,435	20,188	49,592	(412)	160,197
Accrued interest receivable	85	431	46	127	386		1,075
Other assets	303	363	99	129	1,308	338	2,540
Total assets	$30,782	$70,996	$14,114	$25,386	$65,826	$ (74)	$207,030
Liabilities and Capital							
Systemwide Debt Securities (Notes 8 and 9):							
Due within one year	$12,229	$21,494	$ 5,003	$ 8,417	$20,934	$ (10)	$ 68,067
Due after one year	16,097	44,323	7,777	15,465	37,052	(8)	120,706
Total Systemwide Debt Securities	28,326	65,817	12,780	23,882	57,986	(18)	188,773
Subordinated debt (Note 10)		500	50		1,000		1,550
Accrued interest payable	58	284	44	96	351		833
Other liabilities	270	800	89	41	2,083	(10)	3,273
Mandatorily redeemable preferred stock (Note 11)	225						225
Total liabilities	28,879	67,401	12,963	24,019	61,420	(28)	194,654
Capital (Note 13)							
Preferred stock	400		482	225	700		1,807
Capital stock and participation certificates	417	1,727	238	632	1,569	(65)	4,518
Accumulated other comprehensive (loss) income	32	(86)	22	(208)		(13)	(253)
Surplus	1,054	1,954	409	718	2,137	32	6,304
Total capital	1,903	3,595	1,151	1,367	4,406	(46)	12,376
Total liabilities and capital	$30,782	$70,996	$14,114	$25,386	$65,826	$ (74)	$207,030

Combining Bank-Only Statement of Condition

December 31, 2009

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	U.S. AgBank, FCB	CoBank, ACB	Combination Entries	Combined Banks
Assets							
Cash	$ 706	$ 71	$ 471	$ 152	$ 923		$ 2,323
Federal funds sold and securities purchased under resale agreements	146	709	20		5		880
Investments (Note 3)	8,313	8,866	2,144	4,902	11,808		36,033
Loans							
To Associations(1)	14,891	48,040	8,218	19,342	15,275		105,766
To others	6,436	7,619	2,815	876	28,900	$(434)	46,212
Less: allowance for loan losses	(32)	(23)	(32)	(5)	(370)		(462)
Net loans	21,295	55,636	11,001	20,213	43,805	(434)	151,516
Accrued interest receivable	95	490	49	142	407		1,183
Other assets	313	371	114	140	1,213	379	2,530
Total assets	$30,868	$66,143	$13,799	$25,549	$58,161	$ (55)	$194,465
Liabilities and Capital							
Systemwide Debt Securities (Notes 8 and 9):							
Due within one year	$13,939	$20,537	$ 4,757	$ 7,556	$14,969	$ (8)	$ 61,750
Due after one year	14,755	40,789	8,012	16,673	35,318	(1)	115,546
Total Systemwide Debt Securities	28,694	61,326	12,769	24,229	50,287	(9)	177,296
Subordinated debt (Note 10)		500	50		1,000		1,550
Accrued interest payable	83	326	69	130	394		1,002
Other liabilities	286	724	90	49	2,422	(8)	3,563
Mandatorily redeemable preferred stock (Note 11)	225						225
Total liabilities	29,288	62,876	12,978	24,408	54,103	(17)	183,636
Capital (Note 13)							
Preferred stock	400		200	225	700		1,525
Capital stock and participation certificates	439	1,702	245	624	1,520	(47)	4,483
Accumulated other comprehensive (loss) income	(123)	(160)	11	(326)	(34)	(17)	(649)
Surplus	864	1,725	365	618	1,872	26	5,470
Total capital	1,580	3,267	821	1,141	4,058	(38)	10,829
Total liabilities and capital	$30,868	$66,143	$13,799	$25,549	$58,161	$ (55)	$194,465

(1) These loans represent direct loans to Associations, not retail loans to borrowers. Since the Associations operate under regulations that require maintenance of certain minimum capital levels, adequate reserves, and prudent underwriting standards, these loans are considered to carry less risk. Accordingly, these loans typically have little or no associated allowance for loan losses. The majority of the credit risk resides with the Banks' and Associations' retail loans to borrowers. Association retail loans are not reflected in the combining Bank-only financial statements.

Further, the loans to the Associations are risk-weighted at 20% of the loan amount in the computation of each Bank's regulatory permanent capital, surplus and core surplus ratios. Based upon the lower risk-weighting of these loans to the Associations, the Banks, especially the Farm Credit Banks, typically operate with more leverage and lower earnings than would be expected from a traditional retail bank. In the case of the Agricultural Credit Bank, while it has certain loans to Associations, the majority of its loans are retail loans to cooperatives and other eligible borrowers.

Combining Bank-Only

Statement of Income

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	U.S. AgBank, FCB	CoBank, ACB	Combination Entries	Combined Banks
2010							
Interest income	$ 954	$ 1,654	$ 483	$ 607	$ 1,666	$ 19	$ 5,383
Interest expense	(383)	(1,148)	(273)	(455)	(715)	20	(2,954)
Net interest income	571	506	210	152	951	39	2,429
(Provision for loan losses) loan loss reversal	(40)	(2)	(29)	3	(60)		(128)
Noninterest income							
Loan-related fee income	12	77	10	12	102		213
Losses on extinguishment of debt		(11)		(10)	(26)	(25)	(72)
Total other-than-temporary impairment losses	(9)	(29)	(3)	(33)	(49)		(123)
Portion of loss recognized in other comprehensive income	(3)	13	1	17	5		33
Net other-than-temporary impairment losses included in earnings	(12)	(16)	(2)	(16)	(44)		(90)
Other noninterest income	(15)	97	28	31	69	(15)	195
Total noninterest income	(15)	147	36	17	101	(40)	246
Noninterest expense	(99)	(70)	(49)	(35)	(219)	(21)	(493)
Provision for income taxes					(159)		(159)
Net income	$ 417	$ 581	$ 168	$ 137	$ 614	$(22)	$ 1,895
2009							
Interest income	$1,032	$ 1,867	$ 565	$ 709	$ 1,776	$ 8	$ 5,957
Interest expense	(542)	(1,379)	(399)	(598)	(830)	34	(3,714)
Net interest income	490	488	166	111	946	42	2,243
Provision for loan losses	(46)	(15)	(34)	(2)	(80)		(177)
Noninterest income							
Loan-related fee income	10	38	7	10	89		154
Losses on extinguishment of debt		(17)		(8)	(18)	(15)	(58)
Total other-than-temporary impairment losses	(60)	(128)	(12)	(113)	(48)		(361)
Portion of loss recognized in other comprehensive income	34	76	7	76	33		226
Net other-than-temporary impairment losses included in earnings	(26)	(52)	(5)	(37)	(15)		(135)
Other noninterest income	(11)	49	28	12	30	(6)	102
Total noninterest income	(27)	18	30	(23)	86	(21)	63
Noninterest expense	(108)	(79)	(55)	(37)	(221)	(19)	(519)
Provision for income taxes					(166)		(166)
Net income	$ 309	$ 412	$ 107	$ 49	$ 565	$ 2	$ 1,444
2008							
Interest income	$1,333	$ 2,370	$ 661	$ 949	$ 2,603	$ 19	$ 7,935
Interest expense	(967)	(2,027)	(543)	(847)	(1,741)	18	(6,107)
Net interest income	366	343	118	102	862	37	1,828
Provision for loan losses	(43)	(11)	(21)	(2)	(55)		(132)
Noninterest income							
Loan-related fee income	7	22	5	8	63		105
Losses on extinguishment of debt		4			(33)	(28)	(57)
Total other-than-temporary impairment losses	(11)	(46)	(2)	(17)	(6)		(82)
Other noninterest income	(17)	77	21	15	44	(45)	95
Noninterest income	(21)	57	24	6	68	(73)	61
Noninterest expense	(85)	(60)	(44)	(31)	(215)	(20)	(455)
Provision for income taxes					(127)		(127)
Net income	$ 217	$ 329	$ 77	$ 75	$ 533	$(56)	$ 1,175

Combining Bank-Only
Statement of Changes in Capital

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	U.S. AgBank, FCB	CoBank, ACB	Combination Entries	Combined Banks
Balance at December 31, 2007	$1,457	$2,397	$ 729	$1,289	$3,234	$(11)	$ 9,095
Adjustment due to a change in pension accounting					(1)		(1)
Balance at January 1, 2008	1,457	2,397	729	1,289	3,233	(11)	9,094
Comprehensive income							
Net income	217	329	77	75	533	(56)	1,175
Change in unrealized losses on investments	(318)	(290)	(17)	(134)	(138)		(897)
Change in unrealized losses on cash flow hedges		(40)	(4)	3	(2)	5	(38)
Pension and other benefit plans			(1)	1	(49)	(6)	(55)
Income tax benefit related to other comprehensive loss					72		72
Total comprehensive income (loss)	(101)	(1)	55	(55)	416	(57)	257
Preferred stock issued, net					198		198
Preferred stock dividends	(27)		(15)	(14)	(48)		(104)
Capital stock and participation certificates issued	70	711	28	18	44		871
Capital stock, participation certificates, and surplus retired		(160)			(41)		(201)
Patronage and dividends	(158)	(180)	(52)	(67)	(208)	16	(649)
Balance at December 31, 2008	1,241	2,767	745	1,171	3,594	(52)	9,466
Comprehensive income							
Net income	309	412	107	49	565	2	1,444
Change in unrealized losses on investments	238	196	36	(120)	171		521
Change in unrealized losses on cash flow hedges		71	3	9	1	3	87
Pension and other benefit plans	(1)				7	(3)	3
Income tax benefit related to other comprehensive loss					(68)		(68)
Total comprehensive income (loss)	546	679	146	(62)	676	2	1,987
Preferred stock dividends	(28)		(15)	(14)	(61)		(118)
Capital stock and participation certificates issued	14	36	10	51	41		152
Capital stock, participation certificates, and surplus retired	(10)	(27)			(8)		(45)
Patronage and dividends	(183)	(188)	(65)	(5)	(184)	12	(613)
Balance at December 31, 2009	1,580	3,267	821	1,141	4,058	(38)	10,829
Comprehensive income							
Net income	417	581	168	137	614	(22)	1,895
Change in unrealized losses on investments	164	116	12	125	69		486
Change in unrealized losses on cash flow hedges	(8)	(42)	(2)	(7)	(7)	2	(64)
Pension and other benefit plans	(1)		1		(7)	2	(5)
Income tax benefit related to other comprehensive loss					(21)		(21)
Total comprehensive income (loss)	572	655	179	255	648	(18)	2,291
Preferred stock issued, net			297				297
Preferred stock retired			(18)				(18)
Preferred stock dividends	(27)		(46)	(14)	(64)		(151)
Capital stock and participation certificates issued	17	62	4	8	2		93
Capital stock, participation certificates, and surplus retired	(39)	(113)	(11)		(44)		(207)
Patronage and dividends	(200)	(276)	(75)	(23)	(194)	10	(758)
Balance at December 31, 2010	$1,903	$3,595	$1,151	$1,367	$4,406	$(46)	$12,376

Certain Bank-only ratios and other information is as follows:

	AgFirst FCB	AgriBank, FCB	FCB of Texas	U.S. AgBank, FCB	CoBank, ACB
December 31, 2010					
Return on average assets	1.37%	0.87%	1.20%	0.55%	1.03%
Return on average capital	22.25%	16.80%	16.78%	10.69%	14.30%
Nonperforming assets as a percentage of loans and other property owned	0.99%	0.14%	1.18%	0.01%	0.35%
Allowance for loan losses as a percentage of loans	0.07%	0.02%	0.28%	0.01%	0.80%
Capital as a percentage of total assets	6.18%	5.06%	8.16%	5.38%	6.69%
Net collateral ratio	106.4%	105.8%	107.9%	105.6%	108.0%
Permanent capital ratio	21.2%	20.6%	22.0%	20.2%	14.3%
Liquidity in days	208	137	177	143	198
Average liquidity in days during 2010	198	149	189	157	240
December 31, 2009					
Return on average assets	1.03%	0.65%	0.74%	0.19%	0.93%
Return on average capital	21.11%	13.69%	13.07%	4.07%	14.65%
Nonperforming assets as a percentage of loans and other property owned	1.19%	0.22%	1.03%	0.05%	0.73%
Allowance for loan losses as a percentage of loans	0.15%	0.04%	0.29%	0.02%	0.84%
Capital as a percentage of total assets	5.12%	4.94%	5.95%	4.47%	6.98%
Net collateral ratio	105.7%	105.6%	105.8%	105.2%	108.7%
Permanent capital ratio	16.7%	18.4%	16.0%	17.2%	15.3%
Liquidity in days	151	123	144	160	238
Average liquidity in days during 2009	154	135	140	168	287

Bank-only information is considered meaningful because only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities (See Notes 7 and 9 for additional information.) That means that each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its lending activities and is also jointly and severally liable with respect to Systemwide Debt Securities issued to fund the other Banks.

The Associations are the primary owners of the Farm Credit Banks. The Agricultural Credit Bank (CoBank) is principally owned by cooperatives, other eligible borrowers and its affiliated Associations. Due to the financial and operational interdependence of the Banks and Associations, capital at the Association level reduces the Banks' credit exposure with respect to the direct loans between the Banks and each of their affiliated Associations. However, capital of the Associations may not be available if the provisions of joint and several liability were to be invoked. There are various limitations and conditions with respect to each Bank's access to the capital of its affiliated Associations, as more fully discussed in Note 13.

In the event a Bank is unable to timely pay principal or interest on an insured debt obligation for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However,

because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

Once joint and several liability is triggered, the Farm Credit Administration is required to make "calls" to satisfy the liability first on all non-defaulting Banks in the proportion that each non-defaulting Bank's available collateral (collateral in excess of the aggregate of the Bank's collateralized obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting Bank's remaining assets. On making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit Administration is required to appoint the Insurance Corporation as the receiver for the defaulting Bank. The receiver would be required to expeditiously liquidate the Bank.

NOTE 23 — SUBSEQUENT EVENTS

Effective January 1, 2011, three Associations in the AgFirst District merged into one entity. The combined total assets of the three merging Associations at December 31, 2010 was $1.3 billion. The merger is accounted for in the same manner as the mergers disclosed in Note 12. Prior to the merger, these Associations entered into an agreement with AgFirst FCB under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined loan portfolio of the merged Association. This agreement is tied to certain adverse assets of the merged Association, which totaled approximately $250 million as of the merger date. Through this agreement, the merged Association will absorb substantial losses on these adverse assets in advance of the Bank providing financial assistance. If future losses in this adverse pool exceed a specified trigger point, the Bank will be required to invest capital in the merged Association through one of several means. This financial "safety net" would not be triggered if losses are sustained outside the adverse asset pool. This agreement also requires the Association to repay to the Bank any capital infusion made subject to this agreement. Also, the agreement provides additional protection to the Bank, such as limitation on the Association's ability to make patronage distributions and certain other restrictions which are triggered if the merged Association's capital level fails to meet minimum established level.

The Banks and Associations have evaluated subsequent events through March 1, 2011, which is the date the financial statements were issued.

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

The following condensed Combining Statements of Condition and Income present Bank-only and Insurance Fund information, as well as information related to the other entities included in the System's combined financial statements. As part of the combining process, all significant transactions between the Banks, the Associations, including loans made by the Banks to the Associations and the interest income/interest expense related thereto, and investments of the Associations in the Banks and the earnings related thereto, have been eliminated.

COMBINING STATEMENT OF CONDITION — (CONDENSED)
December 31, 2010
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Cash and investments	$ 43,218	$ 3,064		$ 46,282			$ 46,282
Loans	160,657	124,279	$(109,585)	175,351			175,351
Less: allowance for loan losses	(460)	(987)		(1,447)			(1,447)
Net loans	160,197	123,292	(109,585)	173,904			173,904
Other assets	3,615	7,707	(4,761)	6,561			6,561
Restricted assets					$3,226		3,226
Total assets	$207,030	$134,063	$(114,346)	$226,747	$3,226	$ 0	$229,973
Systemwide Debt Securities and subordinated debt	$190,323	$ 100		$190,423			$190,423
Other liabilities	4,106	111,795	$(109,834)	6,067		$ 7(a)	6,074
Mandatorily redeemable preferred stock	225			225			225
Total liabilities	194,654	111,895	(109,834)	196,715		7	196,722
Capital							
Protected borrower stock		7		7		(7)(a)	
Preferred stock	1,807	318		2,125			2,125
Capital stock and participation certificates	4,518	544	(3,520)	1,542			1,542
Additional paid-in-capital		393		393			393
Restricted capital					$3,226	0(b)	3,226
Accumulated other comprehensive loss	(253)	(62)	(856)	(1,171)			(1,171)
Surplus	6,304	20,968	(136)	27,136		0(b)	27,136
Total capital	12,376	22,168	(4,512)	30,032	3,226	(7)	33,251
Total liabilities and capital	$207,030	$134,063	$(114,346)	$226,747	$3,226	$ 0	$229,973

Combination entry (a) reclassifies protected borrower stock to other liabilities in recognition of its reduced at-risk characteristics at the System level. Combination entry (b) eliminates $205 million of income recognized by System institutions for excess funds that were returned during the first half of 2010, and a transfer from restricted capital to surplus of $205 million.

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION — (continued)

COMBINING STATEMENT OF CONDITION — (CONDENSED)
December 31, 2009
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Cash and investments	$ 39,236	$ 2,985		$ 42,221			$ 42,221
Loans	151,978	118,664	$(105,812)	164,830			164,830
Less: allowance for loan losses	(462)	(895)	(2)	(1,359)			(1,359)
Net loans	151,516	117,769	(105,814)	163,471			163,471
Other assets	3,713	7,553	(4,790)	6,476			6,476
Restricted assets					$3,289	—	3,289
Total assets	$194,465	$128,307	$(110,604)	$212,168	$3,289	$ 0	$215,457
Systemwide Debt Securities and subordinated debt	$178,846			$178,846			$178,846
Other liabilities	4,565	$108,017	$(106,163)	6,419		$ 8(a)	6,427
Mandatorily redeemable preferred stock	225			225		—	225
Total liabilities	183,636	108,017	(106,163)	185,490		8	185,498
Capital							
Protected borrower stock		8		8		(8)(a)	
Preferred stock	1,525	261		1,786			1,786
Capital stock and participation certificates	4,483	530	(3,509)	1,504			1,504
Additional paid-in-capital		206		206			206
Restricted capital					$3,289		3,289
Accumulated other comprehensive loss	(649)	(62)	(847)	(1,558)			(1,558)
Surplus	5,470	19,347	(85)	24,732		—	24,732
Total capital	10,829	20,290	(4,441)	26,678	3,289	(8)	29,959
Total liabilities and capital	$194,465	$128,307	$(110,604)	$212,168	$3,289	$ 0	$215,457

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION — (continued)

COMBINING STATEMENT OF INCOME — (CONDENSED)
For the Year Ended December 31,
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
2010							
Net interest income	$2,429	$ 3,438	$ 23	$ 5,890			$ 5,890
Provision for loan losses . . .	(128)	(539)		(667)			(667)
Noninterest income	246	1,326	(898)	674	$146	$(285)(b)(c)	535
Noninterest expense.	(493)	(1,740)	112	(2,121)	(4)	80 (c)	(2,045)
Provision for income taxes. .	(159)	(59)		(218)			(218)
Net income	$1,895	$ 2,426	$(763)	$ 3,558	$142	$(205)	$ 3,495
2009							
Net interest income	$2,243	$ 3,133	$ 16	$ 5,392			$ 5,392
(Provision for loan losses) loan loss reversal	(177)	(749)	1	(925)			(925)
Noninterest income	63	1,076	(750)	389	$377	$(319)(c)	447
Noninterest expense.	(519)	(1,818)	152	(2,185)	(3)	319 (c)	(1,869)
Provision for income taxes. .	(166)	(29)		(195)			(195)
Net income	$1,444	$ 1,613	$(581)	$ 2,476	$374	$ 0	$ 2,850
2008							
Net interest income	$1,828	$ 2,861	$ 13	$ 4,702			$ 4,702
(Provision for loan losses) loan loss reversal	(132)	(278)	2	(408)			(408)
Noninterest income	61	1,028	(663)	426	$319	$(243)(c)	502
Noninterest expense.	(455)	(1,661)	149	(1,967)	(3)	243 (c)	(1,727)
Provision for income taxes. .	(127)	(26)		(153)			(153)
Net income	$1,175	$ 1,924	$(499)	$ 2,600	$316	$ 0	$ 2,916

Combination entry (b) eliminates $205 million of income recognized by System institutions, as noted on page F-59. Combination entry (c) eliminates the Insurance Fund premiums of $80 million, $319 million, and $243 million expensed by the Banks during the years ended 2010, 2009, and 2008 and the related income recognized by the Insurance Corporation.

The chartered territories of the Banks and their affiliated Associations (collectively, the District) include all or portions of the states and territories set forth below:

AgFirst Farm Credit Bank	Alabama, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Ohio, Pennsylvania, Puerto Rico, South Carolina, Tennessee, Virginia, and West Virginia
AgriBank, FCB	Arkansas, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Wisconsin, and Wyoming
Farm Credit Bank of Texas	Alabama, Louisiana, Mississippi, New Mexico, and Texas
U.S. AgBank, FCB	Arizona, California, Colorado, Hawaii, Idaho, Kansas, Nevada, New Mexico, Oklahoma, Utah, and Wyoming
CoBank, ACB	Serves eligible customers nationwide and Associations in the states of Alaska, Connecticut, Idaho, Maine, Massachusetts, Montana, New Hampshire, New Jersey, New York, Oregon, Rhode Island, Vermont, and Washington

Although the Banks are not commonly owned or controlled, they fund their operations primarily through the issuance of Systemwide Debt Securities for which they are jointly and severally liable. Further, each District operates in such an interdependent manner that we believe the financial results of the Banks combined with their affiliated Associations are more meaningful than providing financial information of the Banks and Associations on a stand-alone basis. For the purpose of additional analysis, the following presentation reflects each District, the Insurance Fund and combination entries.

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION — (continued)

COMBINING BANK AND ASSOCIATION (DISTRICT)

STATEMENT OF CONDITION — (CONDENSED)

December 31, 2010

(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Cash and investments	$ 9,723	$12,825	$ 3,705	$ 5,425	$14,601	$ 3	$ 46,282
Loans	23,033	65,048	15,629	24,307	51,815	(4,481)	175,351
Less: allowance for loan losses	(182)	(406)	(163)	(119)	(577)		(1,447)
Net loans	22,851	64,642	15,466	24,188	51,238	(4,481)	173,904
Other assets	976	2,319	385	720	1,861	300	6,561
Restricted assets						3,226	3,226
Total assets	$33,550	$79,786	$19,556	$30,333	$67,700	$ (952)	$229,973
Systemwide Debt Securities and subordinated debt	$28,326	$66,417	$12,830	$23,882	$58,986	$ (18)	$190,423
Other liabilities	842	1,711	3,760	1,282	2,561	(4,082)	6,074
Mandatorily redeemable preferred stock	225						225
Total liabilities	29,393	68,128	16,590	25,164	61,547	(4,100)	196,722
Capital							
Protected borrower stock	4	3				(7)	
Preferred stock	400		482	543	700		2,125
Capital stock and participation certificates	150	247	72	39	1,124	(90)	1,542
Additional paid-in-capital			22	206	165		393
Restricted capital						3,226	3,226
Accumulated other comprehensive loss	(292)	(434)	(49)	(337)	(48)	(11)	(1,171)
Surplus	3,895	11,842	2,439	4,718	4,212	30	27,136
Total capital	4,157	11,658	2,966	5,169	6,153	3,148	33,251
Total liabilities and capital	$33,550	$79,786	$19,556	$30,333	$67,700	$ (952)	$229,973

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION — (continued)

COMBINING BANK AND ASSOCIATION (DISTRICT)

STATEMENT OF CONDITION — (CONDENSED)
December 31, 2009
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Cash and investments	$ 9,423	$11,649	$ 2,701	$ 5,615	$12,833		$ 42,221
Loans	23,208	60,246	16,167	23,945	45,783	$(4,519)	164,830
Less: allowance for loan losses	(195)	(387)	(145)	(112)	(520)		(1,359)
Net loans	23,013	59,859	16,022	23,833	45,263	(4,519)	163,471
Other assets	970	2,316	394	699	1,747	350	6,476
Restricted assets						3,289	3,289
Total assets	$33,406	$73,824	$19,117	$30,147	$59,843	$ (880)	$215,457
Systemwide Debt Securities and subordinated debt	$28,694	$61,826	$12,819	$24,229	$51,287	$ (9)	$178,846
Other liabilities	860	1,655	3,781	1,303	2,921	(4,093)	6,427
Mandatorily redeemable preferred stock	225						225
Total liabilities	29,779	63,481	16,600	25,532	54,208	(4,102)	185,498
Capital							
Protected borrower stock	4	3		1		(8)	
Preferred stock	400		200	486	700		1,786
Capital stock and participation certificates	139	240	73	39	1,080	(67)	1,504
Additional paid-in-capital				206			206
Restricted capital						3,289	3,289
Accumulated other comprehensive loss	(439)	(481)	(77)	(456)	(88)	(17)	(1,558)
Surplus	3,523	10,581	2,321	4,339	3,943	25	24,732
Total capital	3,627	10,343	2,517	4,615	5,635	3,222	29,959
Total liabilities and capital	$33,406	$73,824	$19,117	$30,147	$59,843	$ (880)	$215,457

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION — (continued)

COMBINING BANK AND ASSOCIATION (DISTRICT)

STATEMENT OF INCOME — (CONDENSED)
For the Year Ended December 31,
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
2010							
Net interest income	$1,051	$2,052	$ 578	$ 800	$1,354	$ 55	$ 5,890
Provision for loan losses	(138)	(190)	(142)	(51)	(146)		(667)
Noninterest income	57	372	63	82	169	(208)	535
Noninterest expense	(417)	(747)	(224)	(316)	(396)	55	(2,045)
Provision for income taxes	(1)	(50)		(4)	(163)		(218)
Net income	$ 552	$1,437	$ 275	$ 511	$ 818	$ (98)	$ 3,495
2009							
Net interest income	$ 938	$1,828	$ 533	$ 724	$1,324	$ 45	$ 5,392
Provision for loan losses	(163)	(320)	(172)	(87)	(183)		(925)
Noninterest income	23	202	42	25	136	19	447
Noninterest expense	(429)	(781)	(208)	(339)	(408)	296	(1,869)
Provision for income taxes	(4)	(30)	3	1	(165)		(195)
Net income	$ 365	$ 899	$ 198	$ 324	$ 704	$ 360	$ 2,850
2008							
Net interest income	$ 817	$1,564	$ 468	$ 634	$1,179	$ 40	$ 4,702
Provision for loan losses	(121)	(126)	(54)	(22)	(85)		(408)
Noninterest income	27	280	38	48	117	(8)	502
Noninterest expense	(359)	(709)	(184)	(314)	(381)	220	(1,727)
Provision for income taxes		(22)		4	(135)		(153)
Net income	$ 364	$ 987	$ 268	$ 350	$ 695	$ 252	$ 2,916

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION — (continued)

COMBINING BANK AND ASSOCIATION (DISTRICT)

STATEMENT OF CHANGES IN CAPITAL — (CONDENSED)
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Balance at December 31, 2007	$3,566	$ 8,936	$2,251	$4,445	$4,655	$2,566	$26,419
Adjustment due to a change in pension accounting	(5)	(5)	(2)	(3)			(15)
Balance at January 1, 2008	3,561	8,931	2,249	4,442	4,655	2,566	26,404
Net income	364	987	268	350	695	252	2,916
Change in unrealized losses on investments	(320)	(289)	(16)	(127)	(137)		(889)
Change in unrealized losses on cash flow hedges		(40)	(4)	3	(2)	5	(38)
Pension and other benefit plans	(257)	(205)	(79)	(89)	(102)	(6)	(738)
Income tax related to other comprehensive loss					75		75
Total comprehensive income (loss)	(213)	453	169	137	529	251	1,326
Protected borrower stock retired		(1)				1	
Preferred stock issued, net				46	198		244
Preferred stock dividends	(27)		(15)	(22)	(48)		(112)
Capital stock and participation certificates issued	29	30	14	7	2		82
Capital stock, participation certificates, and surplus retired	(28)	(17)	(12)	(16)	(37)		(110)
Patronage and dividends	(200)	(127)	(75)	(108)	(220)	20	(710)
Balance at December 31, 2008	3,122	9,269	2,330	4,486	5,079	2,838	27,124
Net income	365	899	198	324	704	360	2,850
Change in unrealized losses on investments	239	196	36	(125)	170		516
Change in unrealized losses on cash flow hedges		71	3	9	1	3	87
Pension and other benefit plans	56	(11)	19	3	17	(3)	81
Income tax related to other comprehensive loss					(70)		(70)
Total comprehensive income (loss)	660	1,155	256	211	822	360	3,464
Protected borrower stock retired	(1)	(1)				2	
Preferred stock issued, net				15			15
Preferred stock dividends	(27)		(15)	(18)	(61)		(121)
Capital stock and participation certificates issued	30	33	8	4	2		77
Capital stock, participation certificates, and surplus retired	(21)	(17)	(9)	(4)	(10)		(61)
Additional paid-in-capital and other				210			210
Transfer of surplus due to merger				(210)			(210)
Patronage and dividends	(136)	(96)	(53)	(79)	(197)	22	(539)
Balance at December 31, 2009	3,627	10,343	2,517	4,615	5,635	3,222	29,959
Net income	552	1,437	275	511	818	(98)	3,495
Change in unrealized losses on investments	165	116	12	125	69		487
Change in unrealized losses on cash flow hedges	(9)	(43)	(2)	(7)	(7)	4	(64)
Pension and other benefit plans	(9)	(26)	18	1		2	(14)
Income tax related to other comprehensive loss					(22)		(22)
Total comprehensive income (loss)	699	1,484	303	630	858	(92)	3,882
Protected borrower stock retired				(1)		1	
Preferred stock issued, net			279	57			336
Preferred stock dividends	(27)		(46)	(19)	(64)		(156)
Capital stock and participation certificates issued	41	32	4	4	2		83
Capital stock, participation certificates, and surplus retired	(30)	(25)	(8)	(4)	(46)		(113)
Additional paid-in-capital and other			26		168		194
Transfer of surplus due to merger			(26)		(177)		(203)
Patronage and dividends	(153)	(176)	(83)	(113)	(223)	17	(731)
Balance at December 31, 2010	$4,157	$11,658	$2,966	$5,169	$6,153	$3,148	$33,251

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION

COMBINED BANK AND ASSOCIATION (DISTRICT)
SELECTED KEY FINANCIAL RATIOS
(unaudited)

The following combining key financial ratios related to each combined Bank and its affiliated Associations is intended for the purpose of additional analysis.

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined
December 31, 2010					
Return on average assets	1.66%	1.91%	1.41%	1.72%	1.33%
Return on average capital	13.67%	12.98%	9.87%	10.18%	13.68%
Net interest margin	3.31%	2.74%	3.08%	2.78%	2.30%
Operating expense as a % of net interest income and noninterest income	34.81%	31.01%	32.60%	35.05%	25.53%
Net loan charge-offs as a % of average loans	0.66%	0.27%	0.75%	0.19%	0.24%
Nonperforming assets as a % of loans and other property owned	4.33%	1.66%	4.92%	1.74%	1.07%
Allowance for loan losses as a % of loans	0.79%	0.62%	1.04%	0.49%	1.11%
Capital as a % of total assets	12.39%	14.61%	15.17%	17.04%	9.09%
Risk funds as a % of loans	18.84%	18.55%	20.02%	21.76%	12.99%
Debt to capital	7.07:1	5.84:1	5.59:1	4.87:1	10.00:1
December 31, 2009					
Return on average assets	1.12%	1.26%	1.01%	1.08%	1.12%
Return on average capital	10.79%	9.16%	8.02%	6.99%	12.98%
Net interest margin	2.93%	2.64%	2.80%	2.49%	2.26%
Operating expense as a % of net interest income and noninterest income	43.53%	37.85%	34.64%	44.26%	27.83%
Net loan charge-offs as a % of average loans	0.59%	0.25%	0.48%	0.22%	0.23%
Nonperforming assets as a % of loans and other property owned	3.69%	2.07%	3.73%	1.53%	1.51%
Allowance for loan losses as a % of loans	0.84%	0.64%	0.90%	0.47%	1.14%
Capital as a % of total assets	10.86%	14.01%	13.17%	15.31%	9.42%
Risk funds as a % of loans	16.47%	17.81%	16.47%	19.74%	13.44%
Debt to capital	8.21:1	6.14:1	6.60:1	5.53:1	9.62:1

The table below reflects the combined results of each Bank and its affiliated Associations (District) measurement under market value of equity and net interest income sensitivity analyses in accordance with their respective asset/liability management policies and District limits.

	Change in Market Value of Equity			Change in Net Interest Income		
	December 31, 2010			December 31, 2010		
District	−6	+100	+200	−6	+100	+200
AgFirst	−0.18%	1.05%	−0.63%	−0.97%	8.58%	14.34%
AgriBank	0.09	−1.76	−3.68	−0.04	1.29	2.17
Texas	0.11	−2.41	−5.70	−1.02	4.29	6.48
U.S. AgBank	0.01	−0.42	−1.16	−0.34	5.71	10.80
CoBank	0.02	−2.83	−5.64	0.00	0.44	1.08

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION — (continued)
(unaudited)

SELECTED ASSOCIATION KEY FINANCIAL INFORMATION

The Banks serve as financial intermediaries between the capital markets and the retail lending activities of their related Associations. Accordingly, in addition to the supplemental combining Bank and Association (District) information provided on pages F-58 to F-65, selected financial information regarding Associations with asset size greater than $1 billion is provided below for the purpose of additional analysis.

December 31, 2010
($ in millions)

	Total Assets	Gross Loans	Return on Average Assets	Return on Average Capital	Allowance for Loan Losses as a% of Gross Loans	Nonperforming Assets as a% of Gross Loans and Other Property Owned	Permanent Capital Ratio
AgFirst District							
MidAtlantic Farm Credit, ACA	$ 2,361	$ 2,279	2.17%	12.90%	0.76%	3.49%	15.23%
AgSouth Farm Credit, ACA	1,639	1,528	2.22	14.70	0.56	2.71	14.93
Farm Credit of the Virginias, ACA	1,549	1,463	2.29	14.95	0.64	2.94	13.84
Carolina Farm Credit, ACA	1,367	1,217	2.40	13.53	0.85	4.44	15.71
AgChoice Farm Credit, ACA	1,364	1,305	2.68	15.98	0.65	3.60	14.92
First South Farm Credit, ACA	1,313	1,184	1.80	9.70	0.61	1.64	14.19
AgCredit, ACA	1,219	1,176	2.76	18.10	0.77	0.52	18.64
AgGeorgia Farm Credit, ACA	1,177	1,112	1.70	10.68	1.07	6.04	13.84
AgriBank District							
Farm Credit Services of Mid-America, ACA	16,443	14,054	1.38	9.21	0.90	2.20	14.03
Farm Credit Services of America, ACA	16,417	15,545	2.84	17.46	0.54	1.14	13.92
AgStar Financial Services, ACA	5,610	4,915	1.22	9.38	0.80	4.00	15.75
GreenStone FCS, ACA	5,151	4,879	1.91	11.38	0.89	2.90	13.78
1st Farm Credit, ACA	3,596	3,211	2.53	14.69	0.41	0.89	14.09
AgCountry, ACA	3,419	3,148	2.35	11.76	0.65	0.87	16.18
Badgerland Financial, ACA	2,696	2,586	3.05	16.95	0.51	1.35	13.95
Farm Credit Services of Illinois, ACA	2,608	2,480	2.71	13.98	0.26	0.12	14.90
FCS Financial, ACA	2,313	2,215	2.29	11.72	1.13	1.55	16.64
United Farm Credit Services, ACA	1,245	1,177	2.17	13.98	0.45	1.08	11.64
Texas District							
Capital Farm Credit, ACA	5,260	5,130	1.99	12.74	0.88	4.20	14.44
Lone Star Ag Credit, ACA	1,024	961	(0.11)	(0.68)	1.98	10.33	15.18
U.S. AgBank District							
Farm Credit West, ACA	6,129	5,484	1.75	11.23	0.44	3.49	14.27
American AgCredit, ACA	4,826	4,574	1.69	7.92	0.40	2.09	19.38
Yosemite Farm Credit, ACA	1,610	1,466	2.06	14.17	0.33	0.42	12.56
Frontier Farm Credit, ACA	1,328	1,265	1.58	8.38	0.72	2.44	15.78
Farm Credit of New Mexico, ACA	1,298	1,247	1.91	10.50	1.03	0.43	17.21
Farm Credit Services of the Mountain Plains, ACA	1,174	1,126	1.47	6.55	0.68	1.33	19.92
Farm Credit Services Southwest, ACA	1,056	1,002	0.80	6.44	0.50	1.82	13.18
CoBank District							
Northwest Farm Credit Services, ACA	8,705	8,286	1.77	11.61	1.34	3.80	13.19
Farm Credit East, ACA	4,454	4,276	2.34	13.57	1.30	1.32	15.81

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION — (continued)
(unaudited)

SELECTED ASSOCIATION KEY FINANCIAL INFORMATION
December 31, 2009
($ in millions)

	Total Assets	Gross Loans	Return on Average Assets	Return on Average Capital	Allowance for Loan Losses as a% of Gross Loans	Nonperforming Assets as a% of Gross Loans and Other Property Owned	Permanent Capital Ratio
AgFirst District							
MidAtlantic Farm Credit, ACA	$ 2,358	$ 2,288	1.40%	8.85%	0.92%	2.22%	13.96%
AgSouth Farm Credit, ACA	1,594	1,504	1.70	11.16	0.63	2.60	14.55
Farm Credit of the Virginias, ACA	1,514	1,424	1.45	10.33	0.75	2.78	12.08
AgChoice Farm Credit, ACA	1,422	1,367	1.59	10.94	0.87	3.12	12.47
Carolina Farm Credit, ACA	1,331	1,180	1.50	9.22	0.79	4.38	14.54
First South Farm Credit, ACA	1,282	1,153	1.53	8.71	0.64	1.05	12.52
AgGeorgia Farm Credit, ACA	1,123	1,061	1.70	10.61	0.84	3.95	13.75
AgCredit, ACA	1,084	1,046	2.02	13.34	0.84	0.83	17.19
AgriBank District							
Farm Credit Services of Mid-America, ACA	15,258	13,024	0.98	6.59	0.49	1.75	13.14
Farm Credit Services of America, ACA	14,335	13,742	1.70	10.71	0.74	1.47	13.35
AgStar Financial Services, ACA	5,537	4,810	0.91	7.66	1.26	4.56	12.11
Greenstone FCS, ACA	4,797	4,574	1.29	8.07	0.77	3.90	13.03
AgCountry, ACA	3,134	2,849	1.53	8.66	0.57	1.53	14.75
1st Farm Credit, ACA	3,063	2,696	1.88	10.71	0.41	1.55	13.96
Badgerland Financial, ACA	2,373	2,261	2.04	11.76	0.66	1.57	12.71
FCS Financial, ACA	2,244	2,143	0.94	5.39	1.21	3.33	14.22
Farm Credit Services of Illinois, ACA	2,231	2,117	1.82	9.46	0.46	1.09	14.24
United Farm Credit Services, ACA	1,131	1,062	1.34	8.76	0.37	1.68	11.14
Texas District							
Capital Farm Credit, ACA	5,382	5,257	1.07	7.48	0.89	3.38	13.22
Lone Star Ag Credit, ACA	1,164	1,124	0.89	6.31	0.66	5.68	13.42
U.S. AgBank District							
Farm Credit West, ACA	6,044	5,347	1.58	11.09	0.39	2.46	12.53
American AgCredit, ACA	4,983	4,747	1.24	6.42	0.26	1.57	16.27
Yosemite Farm Credit, ACA	1,578	1,432	1.74	13.03	0.20	0.76	10.89
Farm Credit of New Mexico, ACA	1,285	1,234	1.11	6.60	1.01	0.94	15.24
Frontier Farm Credit, ACA	1,242	1,179	0.48	2.69	0.98	1.17	14.70
Farm Credit Services of the Mountain Plains, ACA	1,200	1,140	0.84	4.04	0.72	2.50	18.13
Farm Credit Services Southwest, ACA	1,094	1,046	1.03	8.84	0.41	2.53	11.18
CoBank District							
Northwest Farm Credit Services, ACA	8,579	8,123	1.27	9.04	1.18	3.79	12.23
First Pioneer Farm Credit, ACA(1)	3,201	3,079	2.10	12.72	1.32	1.38	15.36
Western New York ACA(1)	1,056	1,002	1.88	10.68	0.71	1.38	16.10

(1) Effective January 1, 2010, Western New York, ACA merged into First Pioneer Farm Credit, ACA. The resulting merged entity's name is Farm Credit East, ACA.

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION
(unaudited)

Young, Beginning and Small Farmers and Ranchers

In line with our mission, we have policies and programs for making credit available to young, beginning and small farmers and ranchers.

The definitions of young, beginning and small farmers and ranchers (YBS) are:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the date the loan was originally made.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small: A farmer, rancher or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

It is important to note that farmers/ranchers may be included in multiple categories since they are included in each category in which the definition is met.

The following table summarizes information regarding loans to young and beginning farmers and ranchers:

	At December 31, 2010	
	Number of loans	Volume
	($ in millions)	
Total loans and commitments	889,780	$179,569
Loans and commitments to young farmers and ranchers	162,982	$ 21,066
% of loans and commitments to young farmers and ranchers	18.3%	11.7%
Loans and commitments to beginning farmers and ranchers	231,975	$ 34,326
% of loans and commitments to beginning farmers and ranchers	26.1%	19.1%

The following table summarizes information regarding new loans made during 2010 to young and beginning farmers and ranchers:

	For The Year Ended December 31, 2010	
	Number of new loans	Volume
	($ in millions)	
Total new YBS loans and commitments	330,693	$64,097
New loans and commitments to young farmers and ranchers	53,470	$ 7,321
% of new loans and commitments to young farmers and ranchers	16.2%	11.4%
New loans and commitments to beginning farmers and ranchers	65,653	$10,278
% of new loans and commitments to beginning farmers and ranchers	19.9%	16.0%

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION
(unaudited)

The following table summarizes information regarding loans to small farmers and ranchers at December 31, 2010:

	Loan Size				
	$50 thousand or less	$50 to $100 thousand	$100 to $250 thousand	Over $250 thousand	Total
	($ in millions)				
Total number of loans and commitments	421,006	170,176	176,997	121,601	889,780
Number of loans and commitments to small farmers and ranchers	264,113	98,619	89,174	33,242	485,148
% of loans and commitments to small farmers and ranchers	62.7%	58.0%	50.4%	27.3%	54.5%
Total loan and commitment volume	$ 9,199	$ 11,946	$ 27,366	$131,058	$179,569
Total loan and commitment volume to small farmers and ranchers	$ 5,094	$ 6,856	$ 13,395	$ 18,371	$ 43,716
% of loan and commitment volume to small farmers and ranchers	55.4%	57.4%	48.9%	14.0%	24.3%

The following table summarizes information regarding new loans made during 2010 to small farmers and ranchers:

	Loan Size				
	$50 thousand or less	$50 to $100 thousand	$100 to $250 thousand	Over $250 thousand	Total
	($ in millions)				
Total number of new YBS loans and commitments	140,929	61,446	64,433	63,885	330,693
Number of new loans and commitments to small farmers and ranchers	89,834	30,990	24,508	10,039	155,371
% of new loans and commitments to small farmers and ranchers	63.7%	50.4%	38.0%	15.7%	47.0%
Total new YBS loan and commitment volume	$ 2,665	$ 4,034	$ 9,544	$47,854	$ 64,097
Total new loan and commitment volume to small farmers and ranchers	$ 1,663	$ 2,080	$ 3,770	$ 5,576	$ 13,089
% of loan and commitments volume to small farmers and ranchers	62.4%	51.6%	39.5%	11.7%	20.4%

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DIRECTORS AND MANAGEMENT

Boards of Directors

Each Bank is governed by a board of directors that is responsible for establishing policies and procedures for the operation of the Bank. Each Bank's bylaws provide for the number, term, manner of election and qualifications of the members of the Bank's board. Farm Credit Administration regulations require at least two members of each Bank's board of directors be appointed by the other directors. Appointed members cannot be a director, officer, employee or stockholder of a System institution.

The following information sets forth the directors of each Bank as of December 31, 2010. The information includes the director's name, age, and business experience, including principal occupation and employment during the past five years. For additional discussion and information on the compensation of each Bank's board of directors, see the Bank's annual report.

AgFirst Farm Credit Bank

Gary L. Alexander, 55, from Westminster, South Carolina, is owner and operator of Alexander Farms, Inc., a poultry production and property development business. He markets 3.2 million broilers a year through his 18-broiler house farm and develops residential properties. He currently serves on the board of directors of AgSouth Farm Credit, ACA and is a director of the S. C. Poultry Federation. Mr. Alexander became a director in 2008 and his term expires December 31, 2011.

Jack W. Bentley, Jr., 53, from Tignall, Georgia, is a dairy farmer and owns and operates A&J Dairy, a 270-cow dairy that includes 583 acres of pasture, crops and timberland, and an additional 500 acres of leased farmland. Mr. Bentley is a director of AgGeorgia Farm Credit, ACA, Southeast United Dairy Industry Association, and the Wilkes County Farm Bureau. He is also a member of the Wilkes County Board of Tax Assessors and is past board chair for Farm Service Agency. Mr. Bentley became a director in 2010 and his term expires December 31, 2013.

Bonnie V. Hancock, 49, of Wake Forest, North Carolina, is Executive Director of the Enterprise Risk Management Initiative at North Carolina State University (NCSU). She also lectures and teaches courses in financial management, enterprise risk management, strategy and financial statement analysis. During 2010, Ms. Hancock conducted an enterprise risk management session for an Association affiliated with the Bank. Prior to joining NCSU, she worked with Progress Energy, as senior vice president of finance and information technology and later as president of Progress Fuels, a subsidiary that produces and markets gas, coal and synthetic fuels, and operates fuel terminals and ash management facilities. Ms. Hancock is a graduate of Georgetown University with a master's degree in taxation. She is also a graduate of the College of William and Mary with a bachelor's degree in business administration with an accounting major. Ms. Hancock is a member of the boards of Powell Industries, designer and manufacturer of electrical equipment and computer systems that monitor the flow of electricity in industrial facilities where she serves on the compensation committee and the North Carolina Coastal Pines Girl Scout Council, where she serves as chair of the audit committee. Ms. Hancock became a director in 2010 and her term expires December 31, 2013. She is a board designated financial expert.

Dale R. Hershey, 63, from Manheim, Pennsylvania is a partner in Hershey Brothers Dairy Farms, a dairy operation which milks 300 cows, raises 250 dairy replacements, and grows 650 acres of corn, alfalfa, soybeans, barley, rye and hay. He is on the board of directors of MidAtlantic Farm Credit, ACA, is a delegate on the Leadership Council for Land O'Lakes and is a member of Pennsylvania Farm Bureau, Pennsylvania Dairy Stakeholders and the Pennsylvania Holstein Association. Mr. Hershey also is a member of the Lancaster County Blue Ribbon Commission for Agriculture and the Penn Township Ag Advisory Committee. Mr. Hershey became a director in 2008 and his term expires December 31, 2011.

Robert L. Holden, Sr., 64, is co-owner and operator of a dairy, a 900-acre row-crop farm, and a 200,000 broiler operation in Whigham, Georgia. He is a director of the Southwest Georgia Farm Credit, ACA, Georgia Milk Producers, Grady County Farm Bureau, American Dairy Association of Georgia, and First United Ethanol, LLC. Mr. Holden became a director in 1995 and his term expired on December 31, 2010.

Paul M. House, 62, Chairman of the Board, is from Nokesville, Virginia, where he grows corn, soybeans, wheat, hay and turf grass on 4,000 acres. He also operates a dairy and milks 340 cows. He serves as a director of the Farm Credit of the Virginias, ACA. Mr. House became a director in 2002 and his term expires December 31, 2011.

Thomas W. Kelly, 73, of Tyrone, Pennsylvania is owner and manager of a livestock and crop farm, raising dairy heifers and growing corn and soybeans. Along with his son, he handles land management for Spring Lane Hunt Club. He currently is an elected delegate to the Penn State Agricultural Council and a director of Mid-Atlantic Master Farmer Association and is a former director of Holstein Association, USA. He is a member of AgChoice Farm Credit, ACA. Mr. Kelly became a director in 2001 and his term expires December 31, 2012.

Lyle Ray King, 66, of Ash, North Carolina, owns and operates a farm where he grows, timber, corn, soybeans and wheat. He currently serves on the boards of Cape Fear Farm Credit, ACA, Atlantic Telephone Membership Cooperative, and Landbank Resource Management, a real estate company. Mr. King became a director in 2005 and his term expires December 31, 2012.

M. Wayne Lambertson, 64, Vice Chairman of the Board, is from Pocomoke City, Maryland and owns and operates with his son a 2,700-acre farm of corn, soybeans, and wheat, and a 300,000 capacity pullet operation. He is co-owner of a restaurant, Green Turtle, and partner in a development and construction company, J.W.L. Enterprise, LLC. He currently serves on the national Farm Credit Council Board, MidAtlantic Farm Credit, ACA board of directors and the board of the Delmarva Poultry Industry (DPI), a trade organization. Mr. Lambertson became a director in 2002 and his term expires December 31, 2013.

S. Alan Marsh, 56, of Madison, Alabama is a third-generation farmer, and owner and operator of Marsh Farms. His operation consists of 3,000 acres of row crops, including cotton, soybeans, wheat and corn. Mr. Marsh is a director of First South Farm Credit, ACA and Limestone County Farmers Federation, and is president and stockholder of South Limestone Co-op Gin, an association borrower. He is also a delegate on the national Cotton Council, a member of the Alabama Cattlemen's Association and an advisory board member for Staplecotn, a cotton cooperative association. Mr. Marsh became a director in 2010 and his term expires December 31, 2013.

James L. May, 61, is owner and operator of Mayhaven Farm in Waynesburg, Kentucky, where he owns 330 acres and leases another 700 acres. He is involved in the development and marketing of 500 heifers for replacement cows and embryo transfer. Mr. May's operation also includes 150 acres of alfalfa hay, 500 acres of corn and soybeans, and 100 acres of wheat. He currently serves as a member of the Central Kentucky Ag Credit board, Lincoln County Extension Council, Lincoln County Ag Development Board, and is a member of the Lincoln County Farm Bureau Board. Mr. May became a director in 2006 and his term expires December 31, 2013.

Bobby E. McCollum, Jr., 61, of Polkton, North Carolina is a poultry operator. His operation includes eight broiler houses that produce 750,000 heavy broilers per year. Mr. McCollum also has a 100-head brood cow/calf commercial herd, and grows 100 acres of timber as well as hay, soybeans, wheat and corn. He is a director of Anson County Farm Bureau, and a member of Anson County Cattlemen's Association and the North Carolina Farm Bureau, serving on their Poultry Advisory Committee. He is a member of Carolina Farm Credit, ACA. Mr. McCollum became a director in 2010 and his term expires December 31, 2013.

Eugene W. Merritt, Jr., 66, from Easley, South Carolina, is co-owner of an ornamental tree farm and is a landscape contractor. He also operates a 400-acre timber and grass farm. He serves on the boards of AgSouth Farm Credit, ACA; People Bancorp, commercial bank holding company; Peoples National Bank, a commercial bank; and Jackson Companies, a recreational company. Mr. Merritt became a director in 1995 and his term expired on December 31, 2010.

James M. Norsworthy, III, 60, from Jackson, Louisiana. He runs 100 Cedars Cattle Farm, a 175-head cow-calf operation near Jackson, La. He also has a commercial hay operation with 125 acres in Alicia Bermuda hay and 150 acres in Bahia Grass hay and manages a 375-acre pine and hardwood timber operation. Mr. Norsworthy is a member of the board of directors of First South Farm Credit, ACA, and serves on the board of Feliciana Farm Bureau and is a past president of that organization. He is a member of East Feliciana Cattlemen's Association, American Angus Association and the Feliciana Forestry Association. He also served as a former mayor of the town of Jackson, Louisiana. Mr. Norsworthy became a director in 2008 and his term expires December 31, 2011.

Katherine A. Pace, 48, from Orlando, Florida, is a certified public accountant. Prior to forming her company, Family Business Consulting, LLC, she was a tax partner with KPMG, LLP, an audit, tax and advisory service firm, from 1985-2005. While at KPMG her practice included a variety of cooperative and agribusiness clients as well as participation in trade associations such as the National Society of Accountants for Cooperatives. She is a member of the American Institute of Certified Public Accountants, the Florida Institute of Certified Public Accountants and current and past member and director of numerous trade and charitable organizations. Ms. Pace became a director in 2006 and her term expires December 31, 2011. She is a board designated financial expert.

Walter L. Schmidlen, Jr., 70, from Elkins, West Virginia, is a past dairy farmer and now continues his cow-calf operation along with growing hay and corn on a 700-acre farm with lease/rented land. He is owner/operator of a farm equipment business. He presently serves on the board of the Farm Credit of the Virginias, ACA and was a former director of Southern States Cooperative and Sire Power. Mr. Schmidlen became a director in 2001 and his term expires December 31, 2012.

Robert G. Sexton, 51, is from Vero Beach, Florida. He is President of Oslo Citrus Growers Association and co-owner of Lost Legend, LLC, and owner of Orchid Island Juice Company. He serves as a director of Farm Credit of South Florida, ACA (now Farm Credit of Florida, ACA); Oslo Citrus Growers Association, Lost Legend, LLC, Florida Citrus Packers, Indian River Citrus League, Highland Exchange Service Co-op, a packinghouse supply cooperative, McArthur Management Company, a management company for a large dairy, cattle and citrus agribusiness, and an association borrower; Sexton Grove Holdings, a family citrus company, Sexton Properties, Oslo Packing Company, Patio Restaurant and Sexton, Inc., family commercial real estate companies, and Dancing Pigs, LLC, which owns Red, Hot and Blue BBQ restaurants. In addition, he is a member of the Indian River Farm Bureau. Mr. Sexton became a director in 2000 and his term expires December 31, 2011. He is a board designated financial expert.

Robert H. Spiers, Jr., 65, is a full-time farmer, with tobacco, corn, wheat, soybean on 1,100 acres in Dinwiddie County, Virginia. Mr. Spiers sells tobacco at a warehouse operated by an association borrower. He currently serves on the boards of Colonial Farm Credit, ACA, Tobacco Associates, Inc. and Dinwiddie County Farm Bureau. He is also director and treasurer of the Old Hickory Hunt Club and a director on the Virginia Flue-cured Tobacco Board. He has been active on a number of Virginia Farm Bureau advisory committees. He became a director in 2006 and his term expires December 31, 2013.

William H. Voss, 69, is from McComb, Mississippi. He has commercial cattle and timber operations in Southwest Mississippi and is involved in land and commercial property management. His career includes production agriculture, agribusiness and real estate. He currently serves on the Board of directors of First South Farm Credit, ACA (now Farm Credit of Florida, ACA) He is a former agricultural commodities and securities broker and has served as chairman of the Mississippi Real Estate Commission and Chairman of the Pike County Farm Service Committee. He became a director in 2007 and his term expires December 31, 2014.

J. Mark Wheeler, 40, from Bradenton, Florida is chief financial officer of Wheeler Farms, Inc., which grows citrus in Brevard, Desoto, Glades and Polk Counties in Florida. He serves on the boards of Farm Credit of Southwest Florida, ACA, Florida Citrus Mutual, an industry trade association, and Wheeler Brothers, Inc., a family-held citrus contract harvesting corporation. Mr. Wheeler is president of Hardee Livestock Market, Inc. and Boston Mining Company, a citrus, real estate and cash investment organization. Mr. Wheeler is a board member of Hardee Livestock Market (HLM), a wholly-owned subsidiary of Wheeler Farms, Inc., a cattle auction company that conducts business with several association borrowers. Wheeler Farms, Inc., also brokered citrus for an association borrower. He is a board designated financial expert. Mr. Wheeler became a director in January 2009 and his term expires December 31, 2012.

In 2010, each member of AgFirst FCB's board of directors received compensation of $51,948, plus expenses.

AgriBank, FCB

Armin Apple, 66, is a self-employed grain farmer in McCordsville, Indiana. Mr. Apple serves on the Governance Committee. Mr. Apple also serves on the AgriBank District Farm Credit Council and is on the board of The National Farm Credit Council. Mr. Apple became a director in 2003 and his term expires in 2011.

Ed Breuer, 46, is a self-employed grain and livestock farmer in Mandan, North Dakota. Mr. Breuer serves as chair of the Governance Committee. Mr. Breuer serves on the AgriBank District Farm Credit Council. He is also a director of Farm Credit Services of Mandan, ACA. Mr. Breuer became a director in 2004 and his term expires in 2011.

Timothy Clayton, 56, appointed director, Plymouth, Minnesota is a Principal of the management consulting firm Emerging Capital, LLC and serves as CFO of Saian, Inc., which provides language translation and globalization software services. Mr. Clayton serves as chair of the Audit Committee and also serves on the Risk Management Committee. He is also a director of the National Federation of Independent Business in Washington, D.C., which provides political advocacy for small businesses. Mr. Clayton became a director in 2005 and his term expires in 2013.

Richard Davidson, 66, Vice Chairman of the Board, is a self-employed grain and livestock farmer in Washington C.H., Ohio. Mr. Davidson serves as chair of the Risk Management Committee and also serves on the Finance Committee. Mr. Davidson is a director of the Federal Agricultural Mortgage Corporation. Mr. Davidson became a director in 2005 and his term expires in 2013.

Douglas Felton, 64, is a self-employed grain farmer in Cannon Falls, Minnesota. Mr. Felton serves on the Governance Committee and on the Risk Management Committee. He is also a director of D&T Enterprise of Minnesota, Inc., which is engaged in custom harvesting and is a director of Great Western Industrial Park, LLC, which is an industrial development company. He also serves on the AgriBank District Farm Credit Council, serves as the Chair of The National Farm Credit Council, and serves as Chair of the System Coordinating Committee. Mr. Felton became a director in 1996 and his term expires in 2012.

Meredith Kapp, 68, is a self-employed grain and livestock farmer in Crosby, Missouri. Mr. Kapp serves as Vice Chair of the Governance Committee. Mr. Kapp became a director in 2004 and his term expires in 2012.

Thomas Klahn, 61, chairman, is a self-employed grain farmer in Lodi, Wisconsin. Mr. Klahn serves on the Finance Committee. He serves on the AgriBank District Farm Credit Council and also serves on the National Farm Credit Council. Mr. Klahn became a director in 2002 and his term expires in 2013.

Lyndon Limberg, 68, is a self-employed farmer in Gary, South Dakota. He serves as chair of the Human Resources Committee. Mr. Limberg serves on the AgriBank District Farm Credit Council. He also serves on the board of the Antelope Valley Reformed Church in Gary, South Dakota. Mr. Limberg became a director in 2007 and his term expires in 2011.

James McElroy, 62, is a self-employed grain farmer in Waverly, Kentucky. Mr. McElroy serves on the Audit Committee and on the Risk Management Committee. He is also a director of Union County Kentucky Soil and Conservation District, a natural resource conservation organization. Mr. McElroy became a director in 2000 and his term expires in 2014.

David Norman, 53, appointed director, Little Rock, Arkansas is Group Vice President of Enterprise and Agriculture of Winrock International, a nonprofit development foundation. Mr. Norman serves as on the Human Resources Committee. He is also a board member of Volunteers for Economic Growth Alliance, an international development organization, and serves on the board of the Arkansas Repertory Theatre. Mr. Norman became a director in 2003 and his term expires in 2011.

Tim Rowe, 50, is a self-employed grain farmer in Elwood, Nebraska. He serves on the Human Resources Committee. Mr. Rowe is also a Director of All Point Cooperative in Gothenburg, Nebraska. Mr. Rowe became a director in 2010 and his term expires in 2014.

John Schable, 63, is a self-employed grain farmer in Tuscola, IL. He serves as Vice Chair on the Human Resource Committee. He also is a director of FCS of Illinois, Mahomet, Illinois. Mr. Schable became a director in 2009 and his term expires in 2013.

John Schmitt, 54, is a self-employed grain and beef cattle farmer in Quincy, IL. He serves as the vice chair of the Finance Committee. He also is a director of 1st FCS, ACA, Normal, Illinois and Adams County Illinois Farm Bureau. Mr. Schmitt became a director in 2007 and his term expires in 2011.

William Stutzman, 63, is a self-employed cash crop farmer in Blissfield, Michigan and president of Ogden Telephone Company. Mr. Stutzman serves as Vice Chair on the Audit Committee. He is also a director of GreenStone Farm Credit Services, ACA, Lansing, Michigan. He also serves on the Farm Credit Foundations Plan Sponsor Committee. Mr. Stutzman became a director in 2003 and his term expires in 2014.

Roy Tiarks, 60, is a self-employed grain and livestock farmer in Council Bluffs, Iowa. Mr. Tiarks serves as Chair of the Finance Committee and Vice Chair of the Risk Management Committee. He is also a director of the Federal Farm Credit Banks Funding Corporation. Mr. Tiarks became a director in 1996 with AgAmerica, FCB and beginning January 1, 2003 became a director of AgriBank, FCB. His term expires in 2013.

Keri Votruba, 51, vice chairman, is a self-employed grain and livestock farmer in Hemingford, Nebraska. Mr. Votruba serves on the Finance Committee and also serves on the Risk Management Committee. He also serves on the AgriBank District Farm Credit Council. Mr. Votruba became a director in 2004 and his term expires in 2012.

Sue Welch, 73, is a self-employed crop and timber farmer in Fayetteville, Tennessee. Ms. Welch serves on the Audit Committee. She also serves on the Lincoln County (Tennessee) Fair Association Board, Lincoln County/ Fayetteville TN Industrial Board, Lincoln County (Tennessee) Planning Commission Board, and the Rose Hill Board which oversees a historic landmark in Fayetteville TN. Ms. Welch became a director in 2008 and her term expires in 2012.

Thomas Wilkie, III, 65, is a self-employed grain farmer and owner of a drainage supply company in Forrest City, Arkansas. Mr. Wilkie serves on the Audit Committee. He is also a director of Farm Credit Midsouth, ACA, Jonesboro, Arkansas and serves on the St. Frances County Farmers Association, Palestine, Arkansas. Mr. Wilkie serves on the AgriBank District Farm Credit Council and serves on the National Farm Credit Council. He also serves as the chair of the Farm Credit Council Services. Mr. Wilkie became a director in 2010 and his term expires in 2014.

In 2010, each member of AgriBank, FCB's board of directors received an annual retainer which was paid quarterly for attendance at meetings and other official activities. Director compensation was $52,133, plus expenses, per director for 2010.

CoBank, ACB

Gene Batali, 69, is the owner/operator of Batali Ranch, Inc., in Yakima, Washington. Mr. Batali serves on the Board's Governance and Risk Committees. Mr. Batali served on the Board from 2003-2005 and rejoined the Board in 2007. His term expires in 2013.

Everett Dobrinski, chairman, 64, is the owner/operator of Dobrinski Farm, a cereal grain and oilseed farm in Makoti, North Dakota. Mr. Dobrinski serves as the board chairman of Verendrye Electric Cooperative. He serves as a director with North Dakota Coordinating Council for Cooperatives, Dakota Pride Cooperative, and The Farm Credit Council. Mr. Dobrinski also serves on the advisory board of the Quentin Burdick Center for Cooperatives at North Dakota State University in Fargo, North Dakota. Mr. Dobrinski serves as chairman of the Board's Executive and Compensation Committees. He became a director in 1999 and his term expires in 2011.

Randal J. Ethridge, 59, is the EVP of People's Electric Cooperative, a rural electric distribution cooperative in Ada, Oklahoma, and owner/operator of Ethridge Ranch, a cattle ranching operation in Stroud, Oklahoma. Mr. Ethridge serves as an alternate director with Western Farmers Electric Cooperative. Mr. Ethridge serves on the Board's Risk Committee. Mr. Ethridge became a director in 1997 and his term expired on December 31, 2010.

William M. Farrow III, 55, is the owner of Winston and Wolfe LLC, a privately-held technology development company based in Chicago, Illinois. Mr. Farrow is the organizing director, president and CEO of the Urban Partnership Bank serving Chicago, Detroit and Cleveland. Mr. Farrow is the former CEO and managing partner of F.C. Partners Group, LLC, and former EVP and CIO for the Chicago Board of Trade. Mr. Farrow serves on the Board's Governance and Risk Committees. He was appointed to the Board in 2007 and his term expires in 2014.

Mary E. Fritz, second vice chairman, 61, is the owner/operator of Quarter Circle JF Ranch, Inc., a dry land grain and cow/calf operation in Chester, Montana. Ms. Fritz serves as a director of The Farm Credit Council. She

serves on the Board's Executive and Compensation Committees. Ms. Fritz became a director in 2003 and her term expires in 2011.

William H. Harris, 61, is the owner/operator of Harris Farms, a cash crop farming operation, and partner of HR&W Harvesting, a processing vegetable farm, both in LeRoy, New York. Mr. Harris is also president of Eatwell Farms, Inc., a custom field work operation in LeRoy, New York. Mr. Harris serves as a director with ACDI/VOCA in Washington, D.C. Mr. Harris serves on the Board's Executive, Compensation and Governance Committees. He became a director in 2001 and his term expires in 2011.

Daniel T. Kelley, first vice chairman, 62, is the owner/operator of Kelley Farms, a diversified corn and soybean operation in Normal, Illinois. Mr. Kelley serves as board chairman and president of GROWMARK, Inc.; chairman of Illinois Agricultural Leadership Foundation; and as a director of Evergreen FS, Inc., Midwest Grain LLC, Nationwide Mutual Insurance Company, and Nationwide Bank. Mr. Kelley serves on the Board's Executive and Compensation Committees. He became a director in 2004 and his term expires in 2013.

James A. Kinsey, 61, is the owner/operator of Kinsey's Oak Front Farms, a purebred angus seed-stock operation in Flemington, West Virginia. Mr. Kinsey serves as a director of Farm Credit of the Virginias, ACA and the Federal Farm Credit Banks Funding Corporation. Mr. Kinsey serves on the Board's Executive and Compensation Committees. He became a director in 2001 and his term expires in 2012.

David J. Kragnes, 58, is the owner/operator of a wheat, sugar beet, soybean and corn farm in Felton, Minnesota. Mr. Kragnes serves on the Board's Audit and Governance Committees. He became a director in 2009 and his term expires in 2012.

J. Scott Markham, 60, is the owner/operator of Markham Farms, Inc., a dairy, diversified corn, dairy heifer and beef operation in Constableville, New York. In addition to his CoBank service, Mr. Markham is a past chairman and director of Farm Credit East, formerly known as First Pioneer Farm Credit, ACA, and Farm Credit of Western New York. He is also a former chairman of Empire Farm Credit. Mr. Markham serves on the Board's Audit Committee. He joined the Board in 2010 and his term expires in 2013.

Gary A. Miller, 50, is the president and CEO of GreyStone Power Corporation, an electric membership corporation in Douglasville, Georgia. Mr. Miller serves as a director of Wellstar Health System and as chairman of GRESCO Utility Supply, Inc. Mr. Miller serves on the Board's Audit Committee. He became a director in 2006 and his term expires in 2013.

Catherine Moyer, 35, is director of legal and regulatory affairs for Pioneer Communications, a rural telephone and communications company in Ulysses, Kansas. Ms. Moyer serves as chairman of the board of directors for the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), a national trade association. She is a director for Leadership Kansas and sits on the Kan-ed Advisory Committee. Ms. Moyer serves on the Board's Risk Committee. She was appointed to the Board in 2010 and her term expires in 2014.

Robert D. Nattier, 67, is co-operator of 4-N, Inc., a grain and livestock operation, and owner of Foxridge Golf Club in Newton, Kansas. Mr. Nattier also serves as a director of the North Newton Housing Authority and Wheatland Homes. Mr. Nattier serves on the Board's Executive and Compensation Committees, and chairs the Governance Committee. He became a director in 2003 and his term expires in 2012.

Barry M. Sabloff, 64, is a retired EVP of Bank One, N.A. (which subsequently merged with J.P. Morgan Chase) and during a 30-year career with Bank One and FirstChicago, he headed a variety of areas including: the International Group; Global Risk Management; Europe, Middle East and Africa; Syndications and Placements; Training and Education; and Electric & Gas (utility company banking). Mr. Sabloff is currently the vice chairman/ director of Marquette National Corporation, a bank holding company in Chicago, Illinois, and of Marquette Bank, its community bank subsidiary. Mr. Sabloff is also a director of Calypso Technology, Inc., and The American School in London Foundation and he serves as a trustee of Columbia College Chicago. Mr. Sabloff is the Board's financial expert and serves as chairman of the Board's Audit Committee. He was appointed to the Board in 2005 and his term expires in 2012.

Richard W. Sitman, 57, is the owner/operator of Jos. M. Sitman, Inc., a retail business in Greensburg, Louisiana. Mr. Sitman serves as the board chairman of Dixie Electric Membership Corporation, DEMCO Energy Services, LLC, and Dixie Business Center. He also serves as board secretary of the Bank of Greensburg and as a director of The Farm Credit Council. Mr. Sitman serves on the Board's Audit and Governance Committees. He served on the Board from 1995-1996 and rejoined the Board in 1999. His term expires in 2014.

Kevin A. Still, 53, is the CEO and treasurer of Co-Alliance, LLP, a partnership of five cooperatives supplying energy, agronomy, and animal nutrition, producing swine, and marketing grain in Avon, Indiana. He is also CEO and treasurer of Midland Co-op, Inc., Frontier Co-op, Inc., LaPorte County Co-op, Inc., and Excel Co-op, Inc., agricultural retail cooperatives in Avon, Indiana. He is president and owner of Still Farms LLC. Mr. Still serves as chairman on the Board's Risk Committee. He became a director in 2002 and his term expires in 2014.

In 2010, each member of CoBank, ACB's board of directors was compensated for attendance at meetings and other official activities. Director compensation ranged from $55,233 to $67,773 for 2010, plus expenses.

Farm Credit Bank of Texas

Ralph W. "Buddy" Cortese, 64, chairman of the board of directors, operates a cow/calf and yearling operation on grass and in the feedlot and raises irrigated alfalfa. He is from Fort Sumner, New Mexico. He is a member of the bank's Audit and Compensation committees. He served on the Farmer Mac board from 2003 to 2008 and is a former board member of American Land Foundation. He is also a member of the Texas Agricultural Cooperative Council board of directors and serves as chief financial officer for his local church. Mr. Cortese became a director in 1995 and his term expires in 2013.

Joe R. Crawford, 73, is from Baileyton, Alabama, and owns and operates a cattle business. Mr. Crawford serves on the bank's Audit and Compensation Committees and on the board of directors and the Audit Committee of the Federal Farm Credit Banks Funding Corporation. He is a member and past president of the Alabama Cattlemen's Association and a member of the National Cattlemen's Beef Association, the Alabama Farm Bureau and the Alabama Farmers Federation. Mr. Crawford became a director in 1998 and his term expires in 2012.

James F. Dodson, 57, vice chairman of the board of directors, is from Robstown, Texas and grows cotton, corn and milo and operates a seed sales business with his family. Mr. Dodson serves on the bank's Audit Committee and is chairman of both the Compensation Committee and the Tenth District Farm Credit Council. He is president of Dodson Farms, Inc. and Dodson Ag, Inc.; the owner of Jimmy Dodson Farms; a partner in Legacy Farms, Weber Greene, Ltd., and Dodson Family Farms; and managing partner in Weber Station LLC. In addition, Mr. Dodson serves on the boards of Gulf Coast Cooperative and South Texas Cotton and Grain Association and holds leadership positions in the National Cotton Council of America and American Cotton Producers. Mr. Dodson became a director in 2003 and his term expires in 2011.

Elizabeth G. "Betty" Flores, 66, is from Laredo, Texas, where she served as city mayor from 1998 to 2006. Ms. Flores serves on the bank's Audit and Compensation Committees. Previously, she was senior vice president of the Laredo National Bank. Ms. Flores serves on the boards of the Texas Agricultural Cooperative Council and the TMF Health Quality Institute, and is a graduate of Leadership Texas 1995 and Leadership America 2008. In 2010, she was appointed to serve as a member of the Farm Credit System Diversity Workgroup. Ms. Flores is a partner in a family ranching and real estate business. She is a former member of the Federal Reserve Board Consumer Advisory Council. Ms. Flores became a director in 2006 and her term expires in 2012.

Jon "Mike" Garnett, 66, is from Spearman, Texas. Mr. Garnett raises grain and forage crops and runs stocker cattle and is President of Garnett Farms, Inc. He is a member of the bank's Audit Committee and is vice chairman of the bank's Compensation Committee. In January 2003, Garnett jointed the national Farm Credit Council (FCC) Board of Directors as a district representative and in 2009 he became vice chairman of the FCC Board of Directors. In January of 2011, he was elected chairman of the FCC Board of Directors. In addition, he is a member of the FCC Board of Directors' legislative committee, executive committee, compensation committee and chairs the budget committee. He also serves on the State Technical Committee for the Natural Resources Conservation Service. Mr. Garnett became a director in 1999 and his term expires in 2013.

Lester Little, 60, is from Hallettsville, Texas. He owns and operates a farm and offers custom-farming services. Mr. Little is a Farm Bureau member and serves on the Lavaca Regional Water Planning Group. He is vice chairman of the bank's Audit Committee and is a member of the bank's Compensation Committee. Mr. Little became a director in 2009 and his term expires in 2011.

William F. Staats, 73, is from Baton Rouge, Louisiana. Dr. Staats is Louisiana Bankers Association Chair Emeritus of Banking and Professor Emeritus, Department of Finance at Louisiana State University. He is chairman of the bank's Audit Committee and is the designated financial expert. Dr. Staats also serves on the bank's Compensation Committee. He serves on the boards of the Money Management International Education Foundation, Money Management International, SevenOaks Capital Associates, LLC and Lakeside Bank. Dr. Staats is a member of the Farm Credit System Audit Committee. He is also a member of Texas Lutheran University board of regents. Dr. Staats became a director in 1997 and his term expires in 2011.

In 2010, each member of the FCB of Texas' board of directors was compensated for attendance at meetings and other official activities. Each director's regular compensation totaled $52,133 for 2010, plus expenses and additional compensation if approved by the board of directors if directors serve additional days on other official assignments and under exceptional circumstances where extraordinary time and effort are involved. In 2010, additional compensation of $2,000 was approved by the board of directors.

U.S. AgBank, FCB

Wayne Allen, 69, is from Nevada City, California. Mr. Allen is the owner/operator of Allen Farms, a rice growing operation. He is also part owner and general partner of Bread Store, L.P., a family-owned commercial property management company. Mr. Allen is a member of Farm Credit West, ACA. He is a member of Cal West Seeds, a seed marketing cooperative, and served on the board of directors of that organization for 24 years. Mr. Allen serves on the board of directors of the Farm Credit Council. He serves on the Bank's Compensation Committee and on the Bank's Risk Management Committee. He became a director in 2003 and his current term expires in 2012.

Wesley D. Brantley, Jr., 70, is from Ada, Oklahoma. Mr. Brantley is a CPA and was an audit partner with Horne and Company, CPAs, in Ada, Oklahoma, from 1967 to 1998. His areas of practice included banks, savings and loans, farm cooperatives, insurance companies, colleges, and state and local governments. In 1998, Mr. Brantley accepted a position as Chief Financial Administrator of the Chickasaw Nation, a federally recognized Indian tribe. In this capacity, he was responsible for the tribe's financial statements, budget and grant writing departments, internal audit department, governmental and grant finance department, purchasing and supply department and oversight of the housing and tribal business finance department. Mr. Brantley has retired from this position and now serves in a consulting capacity. Mr. Brantley serves on the Bank's Audit Committee and has been designated as a financial expert. He also serves on the Bank's Risk Management Committee. He became a director in 2005 and his current term expires in 2011.

Robert Bray, 55, is from Redvale, Colorado. Mr. Bray is the owner/operator of Bray Ranches, a farming and ranching operation and a big game hunting business. He is a member of the Farm Credit Services of the Mountain Plains, ACA. He is a member of the Colorado Cattlemen's Association, Colorado Woolgrowers' Association, and the Colorado Farm Bureau. Mr. Bray serves as vice chairman of the Bank's Compensation Committee. He also serves on the Bank's Risk Management Committee. He became a director in 2008 and his term expires in 2011.

John J. "Jack" Breen, 68, is from Middletown, New Jersey. Mr. Breen is the retired managing director-administration of the Federal Farm Credit Banks Funding Corporation. Mr. Breen joined the Funding Corporation management team in 1991 with responsibility for Farm Credit System financing programs and selling group management. In 1996, he assumed responsibility for a newly created Administration Group encompassing all Funding Corporation operating activities. Mr. Breen serves on the Bank's Audit Committee and has been designated as a financial expert. He also serves on the Bank's Risk Management Committee. He became a director in 2004 and his current term expires in 2013.

Oghi A. "Tony" DeGiusti, Jr., 58, is from Tuttle, Oklahoma. Mr. DeGiusti is the owner/operator of DeGiusti Farms, an alfalfa, grass, hay, wheat and cow/calf stocker operation. Mr. DeGiusti is a member of Chisholm Trail

Farm Credit, ACA. Mr. DeGiusti serves on the Farm Credit Council board of directors. He is a director of the Grady County Alfalfa Hay Growers Association and the vice chairman of Grady County Farm Services Agency, an organization which administers USDA programs. He is a member of the Oklahoma Farm Bureau and the American Farmers and Ranchers Insurance Company. Mr. DeGiusti serves as the chairman of the Bank's Compensation Committee. He also serves on the Bank's Risk Management Committee. He became a director in 2005 and his current term expires in 2011.

John Eisenhut, 65, Chairman, is from Turlock, California. Mr. Eisenhut is the owner/operator of Eisenhut Farms, an almond orchard and Manager of Grower Relations for Hilltop Ranch, an almond processor. He is also the owner/operator of Eisenhut Properties, a commercial and residential real estate company. Mr. Eisenhut is a member of Yosemite Farm Credit, ACA, and a member and former officer of the Stanislaus County Farm Bureau. He serves as an ex-officio member of the Bank's Compensation Committee and the Bank's Audit Committee. He also serves on the Bank's Risk Management Committee. He became a director in 2005 and his current term expires in 2012.

J. Less Guthrie, 66, is from Porterville, California. Mr. Guthrie owns and operates a cow/calf and stocker cattle ranch and a diversified farming operation. He is a member of Farm Credit West, ACA. He is a director of Guthrie Investment Co., Inc. (farming and investments) and F&T Financial Services (consumer loans and debt collections). He also serves as the chairman of the board of directors of the Federal Farm Credit Banks Funding Corporation and on the board of directors of the California Cattlemen's Association. Mr. Guthrie serves on the Bank's Compensation Committee and the Bank's Risk Management Committee. He became a director in 1997 and his current term expires in 2013.

David S. Phippen, 60, is from Ripon, California. Mr. Phippen is an almond grower and a co-owner of an almond processing company. He is a member of American AgCredit, ACA. Mr. Phippen is a director of the Almond Board of California. He also serves as a director of the San Joaquin County Farm Bureau. Mr. Phippen serves as vice chairman of the Bank's Risk Management Committee. He also serves on the Bank's Audit Committee. He became a director in 2006 and his current term expires in 2012.

Ronald J. Rahjes, 59, is from Kensington, Kansas. Mr. Rahjes is a partner in Wesley J. Rahjes & Sons, Inc., a diversified family farming corporation which produces wheat, corn, soybeans, and grain sorghum. He is also the owner of R&C Tax Service, an accounting tax firm. Mr. Rahjes is a member of High Plains Farm Credit, ACA. He also serves on the board of directors of Rural Telephone/Nex-Tech, a telecommunications company. Mr. Rahjes serves as vice chairman of the Bank's Audit Committee. He also serves on the Bank's Risk Management Committee. He became a director in 2009, and his current term expires on 2012.

Glen A. ("Andy") Rector, 69, is from Agate, Colorado. Mr. Rector is a farmer and rancher with a cow/calf/yearling and wheat operation. He is in partnership with his two sons in Triple R Farms Partnership Ltd. Mr. Rector is a member of Farm Credit of Southern Colorado, ACA. He served on the Bank's Compensation Committee and on the Bank's Risk Management Committee. Mr. Rector's term on the Board expired on September 30, 2010, and he did not seek re-election.

Sheldon D. Richins, 74, is from Henefer, Utah. Mr. Richins is a rancher and stockman with a cow/calf operation and is in partnership with his two sons. Mr. Richins is a member of Western AgCredit, ACA. He is a member of the National Cattlemen's Association. He also served as chairman of the Summit County Commission and as president of the Utah Association of Counties. Mr. Richins serves on the Bank's Audit Committee and on the Bank's Risk Management Committee. He became a director in 2005 and his current term expires in 2011.

Clint E. Roush, 64, is from Arapaho, Oklahoma. Mr. Roush is the president of Clint Roush Farms, Inc., a family farm corporation, producing wheat, alfalfa, and feeder cattle and an officer of Roush Minerals, LLC. He is a member of Farm Credit of Western Oklahoma, ACA. Mr. Roush serves as president of the board of directors of the Farmers' Cooperative Association of Clinton, Oklahoma, a grain and fertilizer cooperative. He also serves on the advisory board for the Endowed Cooperative Chair in the Agricultural Economics Department of Oklahoma State University. Mr. Roush is the chairman of the Bank's Risk Management Committee and serves on the Bank's Compensation Committee. He became a director in 2009, and his current term expires in 2012.

Kenneth W. Shaw, Vice Chairman, 60, is from Mountainair, New Mexico. Mr. Shaw is a rancher and stockman with a cow/calf/yearling operation. He is a member of Farm Credit of New Mexico, ACA. He is a director of the

Central New Mexico Electric Cooperative, an electric distribution cooperative. Mr. Shaw serves on the Bank's Compensation Committee and on the Bank's Risk Management Committee. He became a director in 1999 and his current term expires in 2013.

Donnell Spencer, 76, is from Richfield, Utah. Mr. Spencer is a farmer and rancher raising alfalfa and livestock. He is a board member and president of Diversified Spencer, Inc., a family farming corporation. Mr. Spencer is a member of Western AgCredit, ACA. Mr. Spencer serves on the Bank's Compensation Committee and on the Bank's Risk Management Committee. He became a director in 2000 and his current term expires in 2011.

David Vanni, 69, is from Gilroy, California. Mr. Vanni is the owner and operator of Rancho de Solis Winery, Inc., and Fratelli Ranch, LLC, in Santa Clara County, California. His operation consists of 40 acres of wine grapes and covers all aspects of a winery operation, including production and marketing. He is also an officer of Vanni Business Partners, LLC (investment development). Mr. Vanni is a member of American AgCredit, ACA. He is a member of the Santa Clara County Farm Bureau and serves on the Ag Advisory Committee to the Santa Clara Valley Water District Board. Mr. Vanni serves as chairman of the Bank's Audit Committee. He also serves on the Bank's Risk Management Committee. He became a director in 2007, and his current term expires in 2013.

Robert J. Wietharn, 49, is from Clay Center, Kansas. Mr. Wietharn is a farmer and pork producer. He manages and is a director of two family-owned corporations whose operations include marketing farrow-to-finish hogs and raising corn and soybeans. He is a member of Frontier Farm Credit, ACA. Mr. Wietharn is a stockholder and chairman of the board of Valley Farmers, Inc. (grain elevator) and is involved in the manufacturing and sale of irrigation equipment. Mr. Wietharn serves on the Bank's Audit Committee and on the Bank's Risk Management Committee. He became a director in 2002, and his current term expires in 2013.

Leland T. Willeke, 60, is from Otis, Colorado. Mr. Willeke operates a 4,500-acre dryland farm that produces wheat and millet. He is president of Wheatland, Inc., a family farming corporation. Mr. Willeke is a member of Premier Farm Credit, ACA, and served as an Association director for 17 years. He also served as Chairman of the U.S. AgBank, FCB, Nominating Committee in 2008-2009. Mr. Willeke serves on the Bank's Compensation Committee and on the Bank's Risk Management Committee. Prior to becoming a farmer, Mr. Willeke was involved with a design and construction firm as a partner and owner. He became a director in 2010, and his current term expires in 2013.

In 2010, 15 members of the U.S. AgBank, FCB board of directors were compensated $47,080 for attendance at regular meetings and other ordinary official activities, plus expenses. They also received an average $5,160 in additional compensation in 2010 for exceptional time and effort spent in connection with carrying out an extensive strategic planning project. The project was designed to determine whether AgBank should continue as a standalone wholesale bank or merge with another Farm Credit System Bank. A director whose term expired on September 30, 2010 was compensated $38,610 and a director whose term commenced on October 1, 2010 was compensated $13,270.

Federal Farm Credit Banks Funding Corporation

F. Gerald Byrne, 64, is from Long Beach, Indiana and is a retired chairman and executive vice president of Bank One Capital Markets. Mr. Byrne serves on the Funding Corporation Audit Committee and the Farm Credit System Audit Committee. Mr. Byrne became a director in 2007 and his term expires in 2013.

Joe R. Crawford, 73, is from Baileyton, Alabama and owns and operates a cattle business. Mr. Crawford is a member of the board of directors of the Farm Credit Bank of Texas. He is a member and past president of the Alabama Cattlemen's Association and a member of the National Cattlemen's Beef Association, the Alabama Farm Bureau and the Alabama Farmers Federation. Mr. Crawford serves on the Funding Corporation Audit Committee. Mr. Crawford became a director in 2003 and his term expires in 2012.

Larry R. Doyle, 58, is the CEO of the Farm Credit Bank of Texas in Austin, Texas. Mr. Doyle serves on the Funding Corporation Governance Committee. Mr. Doyle became a director in 2006 and his term expires in 2011.

Robert B. Engel, 57, vice chairman, is president and CEO of CoBank, ACB in Denver, Colorado. He is chairman of the board of directors for Farm Credit Leasing. In addition, he serves on the Boards of Trustees for

Regis University, New Ventures in Higher Education, Inc., the Graduate Institute of Cooperative Leadership, Buffalo Sabres Alumni Association and as trustee emeritus at Niagara University. He also serves as vice chairman of the National Council of Farmer Cooperatives. Mr. Engel serves as the Chairman of the Funding Corporation Compensation Committee. He is a recipient of the Ellis Island Medal of Honor. Mr. Engel became a director in 2003 and his term expires in 2012.

J. Less Guthrie, 66, chairman, owns and operates a cow/calf and stocker cattle ranch and a diversified farming operation in Porterville, California. He is a member of Farm Credit West, ACA and a member of the board of directors of U.S. AgBank, FCB. Mr. Guthrie serves on the boards of directors of Guthrie Investment Co., Inc., (farming and investments) and F&T Financial Services (consumer loans and debt collections). He also serves on the board of directors of the California Cattlemen's Association (trade association). Mr. Guthrie also serves on the Funding Corporation Compensation Committee. Mr. Guthrie became a director in 2000 and his term expires in 2014.

James A. Kinsey, 61, is owner/operator of Kinsey's Oak Front Farms, a purebred angus seed-stock producer in Flemington, West Virginia. Mr. Kinsey is a member of the boards of directors of CoBank, ACB and Farm Credit of the Virginias, ACA. He is the chairman of the Funding Corporation Governance Committee. Mr. Kinsey became a director in 2004 and his term expires in 2013.

F. A. Lowrey, 58, is CEO of AgFirst Farm Credit Bank in Columbia, South Carolina. Mr. Lowrey is a member of the boards of directors of the University of South Carolina Educational Foundation, the National Council of Farmer Cooperatives, and Palmetto Agribusiness Council. Mr. Lowrey also serves on the Funding Corporation Governance Committee. Mr. Lowrey became a director in 2001 and his term expires in 2013.

Jamie B. Stewart, Jr., 66, is a non-voting member of the board. Mr. Stewart is the president and CEO of the Federal Farm Credit Banks Funding Corporation in Jersey City, New Jersey. Prior to joining the Funding Corporation, Mr. Stewart was first vice president of the Federal Reserve Bank of New York. Mr. Stewart is a director of the Gestalt International Study Center and chairman of the Westchester Institute for Training. He became a director in 2004 and his term will expire upon his retirement.

Roy Tiarks, 60, is a self-employed grain and livestock farmer in Council Bluffs, Iowa. Mr. Tiarks is a member of the board of directors of AgriBank, FCB. He serves on the Funding Corporation Compensation Committee. Mr. Tiarks became a director in 2001 and his term expires in 2015.

Ann E. Trakimas, 54, is from Taos, New Mexico. Ms. Trakimas is a retired vice president and head of Financial Institutions Group from Goldman Sachs & Co. Ms. Trakimas served as the chairman of the Funding Corporation Audit Committee and also served on the Farm Credit System Audit Committee. Ms. Trakimas became a director in 2005 and her term expired on December 31, 2010.

Funding Corporation Bank director members and appointed members are compensated for their time served and for travel and related expenses, while Bank CEOs or presidents are only compensated for travel and related expenses. In 2010, the directors eligible for compensation were paid between $45,500 and $77,500 for the year, plus expenses.

Certain Relationships and Related Transactions

The System is a cooperatively owned network of agricultural lending institutions. Agricultural producers typically become members of an Association when they establish a borrowing/financing relationship with the Association. In CoBank's case, its Associations, together with other borrowers of the Bank, own CoBank, as well as borrow from the Bank. Accordingly, most Bank directors are agricultural producers who are member/borrowers of an Association and, in the case of CoBank, its other member/borrowers.

As discussed in Note 19 to the accompanying combined financial statements, Banks and Associations may, in the ordinary course of business, enter into loan transactions with their officers and directors and other organizations with which officers and directors are associated. These loans are subject to special approval requirements contained in the Farm Credit Administration regulations.

The following is a list of aggregate loan balances outstanding at December 31, 2010 to the directors of each Bank and its affiliated Associations and other organizations with which the directors are associated:

	(in millions)
AgFirst FCB	$368
AgriBank, FCB	300
FCB of Texas	159
U.S. AgBank, FCB	728
CoBank, ACB	617

Senior Officers

The chief executive officer and/or president and all other senior officers of each Bank and the Funding Corporation, together with their age and length of service at their present position as of December 31, 2010, as well as prior positions held if in the current position less than five years, are as follows:

Name, Age and Title	Time in Position	Prior Experience
AgFirst Farm Credit Bank:		
F.A. Lowrey, 58, *Chief Executive Officer*	13 years	CEO, Palmetto Farm Credit, ACA from April 1989 to January 1998. President and CEO of AgFirst from January 1998 to April 2010.
Leon T. Amerson, 48, *President and Chief Operating Officer*	1 year	Chief Financial Officer from March 1998 to September 2006. Chief Operating Officer from September 2006 to April 2010.
Thomas S. Welsh, 63, *Executive Vice President, Chief Administrative and Legislative Officer*	13 years	Chief Marketing and Planning Officer from January 1996 until March 1998.
Charl L. Butler, 53, *Senior Vice President, Chief Financial Officer*	4 years	Chief Financial Officer and Secretary at the National Bank of South Carolina from 1991 until 2007.
William L. Melton, 62, *Senior Vice President, Chief Lending Officer*	7 years	Senior Executive Officer/Bank Lending from January to July 2003, prior to that Lending Services Manager.
Benjamin F. Blakewood, 62, *Senior Vice President, Chief Information Officer*	12 years	Director of Information Technology from 1996 to 1998 at Affinity Technology Group.
Frederick T. Mickler, III, 62, *Senior Vice President and General Counsel*	13 years	Assistant General Counsel July 1989 until April 1998.

Name, Age and Title	Time in Position	Prior Experience
AgriBank, FCB:		
L. William York, 57, *Chief Executive Officer*	5 years	
Brian J. O'Keane, 42, *Senior Vice President and Chief Financial Officer*	3.5 years	Global Treasurer of CNH Capital
Ross B. Anderson, 61, *Senior Vice President and Chief Credit Officer*	19 years	
Greg J. Taylor, 50, *Senior Vice President, Business and Marketing Strategies*	4 years	Vice President of North America Ag Financial Services of CNH Capital
Bill L. Johnson, 51, *Senior Vice President and Chief Risk and Information Officer*	4.5 years	Executive Vice President — Strategic Business Solutions of Northwest Farm Credit Services, ACA; and Executive Vice President — Strategic Relationships of Farm Credit Financial Partners, Inc.
Patricia G. Jones, 50, *Vice President, Human Resources and Administrative Services*	1 year	Head, HR NAFTA Technology for Syngenta; Vice President Human Resources for Agriliance, a joint venture of Land O'Lakes, Inc. and CHS, Inc.
William J. Thone, 57, *Vice President, Secretary and General Counsel*	11.5 years	
CoBank, ACB:		
Robert B. Engel, 57, *President and Chief Executive Officer*	4.5 years	President and Chief Operating Officer since 2000
Mary E. McBride, 55, *Chief Banking Officer*	Appointed September 2010	Chief Operating Officer since 2009; Executive Vice President, Communications and Energy Banking Group 2003 — 2009
John C. Holsey, 61, *Deputy Chief Banking Officer*	1 year and 3 months	Executive Vice President, Global Financial Services Group since 2000
Douglas E. Wilhelm, 61, *Chief Risk Officer*	Appointed August 2010	Chief Credit and Risk Officer since 2006; Senior Vice President, Risk Management Division since 2001
Lori L. O'Flaherty, 51, *Chief Credit Officer*	Appointed August 2010	Executive Vice President, Credit Approval and Administration since 2009; Senior Vice President, Credit Administration 2006 — 2009; Senior Vice President, Corporate Finance 2002 — 2006
David P. Burlage, 47, *Chief Financial Officer*	1 year and 1 month	Senior Vice President — Finance since 2008; Senior Vice President and Controller 2006 — 2008; Controller 2002 — 2006
John Svisco, 52, *Chief Administrative Officer*	Appointed September 2010	Senior Vice President, Human Resources and Administrative Services Divisions since October 2009; Senior Vice President, Human Resources Division April 2009 — September 2009; Senior Vice President, Operations Division 2003 — 2009

Name, Age and Title	Time in Position	Prior Experience
Farm Credit Bank of Texas:		
Larry R. Doyle, 58, *Chief Executive Officer*	7.5 years	Executive Vice President and Chief Operating Officer, AgFirst Farm Credit Bank
Kurt Thomas, 55, *Chief Credit Officer*	Appointed May 2010	Vice President and Unit Manager Association Direct Lending Group
Amie Pala, 53, *Chief Financial Officer*	Appointed July 2010	Vice President of Financial Management
Allen Buckner, 58, *Chief Operations Officer*	Appointed June 2010	Vice President of Lending Systems 2007-2010; Vice President, Credit Operations and Risk Management 2006-2007; Chief Executive Officer, Heritage Land Bank, ACA — January 2006-December 2006
Stan Ray, 46, *Chief Administrative Officer*	Appointed July 2010	Vice President of Marketing and Corporate Relations
Kyle Pankonien, 58, *Vice President, Corporate Affairs, General Counsel and Corporate Secretary*	3 years	Vice President, Corporate Affairs, Deputy General Counsel, FCBT
U.S. AgBank, FCB:		
Darryl W. Rhodes, 60, *President and Chief Executive Officer*	4 years	Executive Vice President, Finance since 1991
David D. Janish, 52, *Senior Vice President, Finance*	4 years	President and CEO of AgVantis, Inc. since 2002
James L. Grauerholz, 61, *Senior Vice President, Administration*	16 years	
Dennis E. Grizzell, 62, *Senior Vice President, Credit*	16 years	
Gregory J. Buehne, 58, Senior *Vice President, Legal and Legislative Services*	4 years	Governance and Strategic Planning consulting for Farm Credit System entities from 2002 to 2007; prior to that, Senior Vice President and General Counsel for Western Farm Credit Bank
Thomas R. Kruse, 62, *Senior Vice President, Internal Audit and Quality Assurance*	4 years	Vice President — Risk Management since 1997
Gregory E. Somerhalder, 50, *Senior Vice President, Risk Management*	Appointed June 2010	Vice President — Risk Management since December 2009, Vice President — Correspondent Lending September 2001 to December 2009.

Name, Age and Title	Time in Position	Prior Experience
Federal Farm Credit Banks Funding Corporation:		
Jamie B. Stewart, Jr., 66, *President and Chief Executive Officer*	7 years	President and Chief Executive Officer; First Vice President of the Federal Reserve Bank of New York
Douglas A. Williams, 53, *Managing Director — Administration*	4 years	Managing Director — Finance since 1992
H. John Marsh, Jr., 58, *Managing Director — Financial Management Division*	18 years	
Glenn R. Doran, 48, *Managing Director — Finance*	3.5 years	Senior Vice President — Finance since 2001
Allison M. Finnegan, 39, *Senior Vice President, General Counsel and Corporate Secretary*	1.6 years	Senior Associate Counsel; Depository Trust & Clearing Corporation 2001-2009
Scott C. Pearson, 48, *Senior Vice President and Director — Information Services*	3.5 years	Vice President and Director — Information Services since 2002

Membership, Farm Credit System Audit Committee

The Farm Credit System Audit Committee is comprised of five members, all of whom are appointed by the board of directors of the Funding Corporation. The Funding Corporation Board has determined that each member of the System Audit Committee is financially literate and has designated one member to be the financial expert as defined by the Farm Credit Administration regulations. All members of the Committee are independent of management of the Funding Corporation or any System Bank or Association.

The membership of the Farm Credit System Audit Committee as of December 31, 2010, was as follows:

F. Gerald Byrne, 64, is from Long Beach, Indiana and is a retired chairman and executive vice president of Bank One Capital Markets. Mr. Byrne serves on the board of the Federal Farm Credit Banks Funding Corporation. Mr. Byrne became a member of the Audit Committee in 2009 and his term expires in 2012.

William F. Staats, 73, is from Baton Rouge, Louisiana and serves as vice chairman of the Committee. Mr. Staats is Louisiana Bankers Association Chair Emeritus of Banking and Professor Emeritus, Department of Finance at Louisiana State University. He is a director of the Farm Credit Bank of Texas and serves on the Bank's Compensation Committee and as chairman of the Bank's Audit Committee. He serves on the boards of the Money Management International Education Foundation, Money Management International, SevenOaks Capital Associates, LLC and Lakeside Bank. Mr. Staats became a member of the Audit Committee in 2004 and his term expires in 2013.

Norman N. Strauss, 69, is from Boca Raton, Florida. Mr. Strauss is an outside member of the Committee and serves as chairman of the Committee. He is a certified public accountant and a retired partner from Ernst & Young LLP where he was National Director of Accounting and is currently the Ernst & Young Professor in Residence at Baruch College in New York City. He is a member of the Financial Reporting Committee of the Institute of Management Accountants. The Funding Corporation board has designated Mr. Strauss as an Audit Committee financial expert. Mr. Strauss became an Audit Committee member in 2008 and his term expires in 2014.

Robert M. Tetrault, 59, is president/owner of T/R Fish, Inc., a marketing/management company for commercial fishing in Portland, Maine, and president/owner of Tara Lynn II, Inc. and Robert Michael, Inc., commercial fishing groups in Portland, Maine. Mr. Tetrault is a director and former chairman of the board of Farm Credit of Maine, ACA and serves as a director on the following boards: Land for Maine's Future, and is the director/owner of Vessel Services, Inc. He is also the General Partner in Portland Fish Pier Associates owners of the Maine Trader Center. Mr. Tetrault became a member of the Audit Committee in 2004 and his term expires in 2014.

Ann E. Trakimas, 54, is from Taos, New Mexico. Ms. Trakimas is a retired vice president and head of Financial Institutions Group from Goldman Sachs & Co. Ms. Trakimas served on the board of the Federal Farm Credit Banks Funding Corporation. Ms. Trakimas became a member of the Audit Committee in 2007 and her term expired on December 31, 2010.

The Committee held four meetings during 2010 and had one teleconference. All members were in attendance for each meeting and the teleconference. Each member of the Committee was compensated for attendance at meetings and other official activities. Compensation ranged from $22,500 to $75,000 for 2010, plus expenses.

COMPENSATION OF CHIEF EXECUTIVE OFFICERS

Compensation Discussion and Analysis

Overview

The philosophy of System institutions with respect to compensating each institution's senior officers is to attract, develop and retain senior officers who are highly qualified and proficient at executing each institution's strategic objectives and operational activities, and deliver performance results that optimize the return to the shareholders. In the case of the Banks, each Bank emphasizes:

- Establishing a clear link between the financial performance (e.g., earnings, capital, asset quality, liquidity, sensitivity to changes in interest rates, and customer satisfaction) of the Bank and each senior officer's total compensation package, including rewarding appropriate risk-taking with the Bank's capital to generate returns for the shareholders, while avoiding unnecessary risks, and

- Providing a total compensation package to each senior officer that is competitive within the financial services industry and their local market.

The total compensation philosophy of System institutions seeks to achieve the appropriate balance between market-based base salary and benefits, and variable incentive compensation that is designed to incent and reward both the current and long-term achievement of System institutions' strategic business objectives and business plans. System institutions believe that this philosophy fosters a performance-oriented, results-based culture wherein compensation varies on the basis of results achieved.

All System institutions are cooperatives with no publicly traded stock. Therefore, no stock options or other equity- or stock-based compensation programs have been, or can be, granted to senior officers of System institutions. However, it is a general practice across the System to reward the performance of an institution's senior officers with some form of non-equity incentive compensation.

The operations of the Funding Corporation are different than the Banks' operations. While the Banks generate income through loans, investments, and related operations, the primary functions of the Funding Corporation are to raise funds as an agent for the Banks in the debt markets and to issue the combined financial statements of the System. The performance of the Funding Corporation in these two areas is used to gauge the performance of each Funding Corporation senior officer for purposes of determining his or her total compensation package. All operating expenses of the Funding Corporation are reimbursed by the Banks through the assessment of fees; there are no revenues generated by the Funding Corporation.

In addition to compensation, System institutions provide a comprehensive and market-based package of employee benefits for health and welfare and for retirement purposes. Some retirement benefits are restored or enhanced for certain senior officers through one or more non-qualified retirement plans. In other words, while the benefits may be limited as the result of Internal Revenue Code limitations, the benefits that would have been accrued had the Internal Revenue Code limits not been in place are made up for certain senior officers through certain non-qualified retirement plans. In addition, certain institutions have provided for enhanced retirement benefits for named executives.

CEO Compensation Policy

The following discussion regarding compensation policy, summary compensation tables, and related disclosures focuses on the CEOs of the Banks and the Funding Corporation since they are the CEOs of the System entities responsible for the Systemwide disclosures.

The Bank and Funding Corporation CEOs generally have three primary forms of compensation: base pay in the form of a salary, non-equity incentive compensation, and retirement benefits.

Base Pay in the Form of a Salary

The base salary component of each Bank's and the Funding Corporation's CEO recognizes the individual's particular experience, skills, responsibilities, and knowledge. Each Bank's and the Funding Corporation's compensation committee or executive committee serving as the compensation committee of each entity's board of directors reviews the appropriate level of base salary and benefits generally on an annual basis. Each committee takes into consideration industry factors and the local market place. Each committee may also use independent consultants or other means to obtain external comparative data for the CEOs of similar financial institutions, based upon asset size and other factors.

Non-Equity Incentive Compensation

Each Bank and the Funding Corporation has some form of non-equity incentive compensation for its CEO. The overall objective of the incentive compensation is to align each CEO's performance objectives with the interests of the shareholders. The receipt of incentive compensation by each Bank CEO is based upon the performance of the Bank in achieving certain strategic and financial goals. In some cases, the Banks may have both short-term incentive compensation, which focuses on the current performance of the Bank, such as profitability, credit quality, capital adequacy and operating efficiency, and long-term incentive compensation, which focuses on the long-term success of the Bank, such as profitability, credit quality and capital adequacy. In the case of the Funding Corporation, the receipt of incentive compensation is based upon the performance of its specific functions noted previously. In addition, a portion of the incentive compensation may be based upon individual goals and performance. Also, in certain instances, the CEOs may be able to defer payment of a portion of the incentive compensation by directing the deferred amounts be invested in accordance with available options selected by retirement trust committees of the Banks or the Funding Corporation. For each Bank's and the Funding Corporation's CEO, a significant portion of their total compensation is "at-risk" in the form of incentive compensation.

Retirement Benefits

Each Bank and the Funding Corporation CEO participates in a defined benefit retirement plan and a defined contribution plan. However, most of the defined benefit retirement plans are closed to new participants. In addition, some of the Banks and the Funding Corporation provide supplemental executive retirement plans and/or pension restoration plans for their CEOs. These plans provide for the portion of the CEO's benefit that cannot be paid from the retirement plan due to the pay and benefit limitations set by the Internal Revenue Code and/or provide enhanced retirement benefits to the CEO. Additional discussions of the retirement benefits for each Bank's and the Funding Corporation's CEO are set forth below.

Additional Information

Additional discussion of each Bank's compensation policies can be obtained by reference to the discussions provided in the Bank's annual report.

Summary Compensation Table

Name	Year	Salary	Non-Equity Incentive Plan Compensation	Change in Pension Value*	All Other Compensation	Total
AgFirst Farm Credit Bank						
F. A. Lowrey, CEO(1)	2010	$615,285	$ 344,621	$ 874,248	$ 37,463	$1,871,617
	2009	600,279	338,619	568,673	36,102	1,543,673
	2008	577,192	275,849	740,509	21,357	1,614,907
AgriBank, FCB						
L. William York, CEO(2)	2010	520,833	514,708	69,005	46,668	1,151,214
	2009	496,917	228,383	61,184	43,742	830,226
	2008	476,250	241,316	44,784	38,847	801,197
CoBank, ACB						
Robert B. Engel, President and CEO(3)	2010	595,833	2,556,910	1,007,531	93,355	4,253,629
	2009	575,000	2,170,215	1,432,288	123,755	4,301,258
	2008	562,500	2,351,350	1,136,484	96,825	4,147,159
Farm Credit Bank of Texas						
Larry R. Doyle, CEO(4)	2010	750,029		82,331	20,486	852,846
	2009	750,029		167,901	4,199,197	5,117,127
	2008	500,019	600,000	(5,810,710)	8,840,659	4,129,968
U.S. AgBank, FCB						
Darryl W. Rhodes, President and CEO(5)	2010	500,000	350,000	(1,554,747)	2,151,262	1,446,515
	2009	500,000	350,000	(134,659)	1,244,268	1,959,609
	2008	450,000	360,000	2,425,236	33,261	3,268,497
Federal Farm Credit Banks Funding Corporation						
Jamie B. Stewart, Jr., President and CEO(6)	2010	475,000	725,000	327,897	44,570	1,572,467
	2009	450,000	675,000	222,162	43,065	1,390,227
	2008	425,000	625,000	253,438	48,250	1,351,688

* While preferential earnings on nonqualified deferred compensation are required to be reported with the change in pension value, the CEOs did not receive any preferential earnings in 2010, 2009 or 2008.

(1) The Compensation Committee of the Board of Directors reviews Mr. Lowrey's performance annually, and the Board of Directors annually approves his compensation level, including base salary and incentive compensation. There is no employment agreement for Mr. Lowrey. The change in pension value and nonqualified deferred compensation earnings for 2008 reflect an additional three months of activity (15 months in total) due to the change in measurement date from September 30th to year-end as required by authoritative accounting guidance.

(2) The Compensation Committee of the Board of Directors reviews Mr. York's performance annually, and the Board of Directors annually approves his compensation level, including base salary and incentive compensation. While being employed "at will," with no specified term of employment, the agreement provides that if Mr. York is terminated for any reason other than cause, his base salary and the employer-paid portion of medical and dental benefits will be continued for 12 months. In the event of a change in control and Mr. York is not named to the new CEO position, or a substantially similar role, in the successor organization, Mr. York will be given a severance payment equal to 24 months total compensation. Total compensation is defined as base pay plus annual incentive compensation. The annual incentive amount will be based on the average of the annual incentive earned for the two most recently completed annual incentive periods. In addition, the employer-paid portion of medical and dental benefits will be continued for 18 months.

(3) The Compensation Committee of the Board of Directors reviews Mr. Engel's performance semi-annually, and the Board of Directors annually approves his compensation level, including base salary, short-term and long-term incentive compensation. Mr. Engel is employed pursuant to an employment agreement that provides specified compensation and related benefits in the event that his employment is terminated, except for termination for cause. In the event of termination, except for cause, the employment agreement provides for the (a) payment of the prorated base salary and incentives through the date of the termination, (b) semi-monthly payments aggregating three

times the sum of base salary and short-term incentives at target, (c) enhanced retirement benefits if the termination results from a change in control, (d) continued participation in the Bank's health and welfare benefits for a three-year period, and (e) certain other benefits for a three-year period, to the same extent as such benefits were being provided on the date of termination. The employment agreement also provides certain limited payments upon death or disability. In order to receive these payments and other benefits, Mr. Engel must sign a release agreeing to give up any claims, actions or lawsuits against CoBank related to his employment. The agreement also provides for non-competition and non-solicitation by the President and CEO over the term of the three-year period.

(4) The Compensation Committee of the Board of Directors reviews Mr. Doyle's performance annually, and the Board of Directors annually approves his compensation level, including base salary and incentive compensation. As discussed in detail below, the Compensation Committee settled the Bank's obligations to the CEO with respect to the Farm Credit Bank of Texas Supplemental Pension Plan pursuant to a Compensation Agreement between the Bank and the CEO entered into in November 2008. Pursuant to the terms and conditions of the Compensation Agreement between the Bank and CEO, the CEO would not earn any bonuses for performance during 2009 or 2010.

For 2009, all other compensation reflects the remaining proration of the $4,500,000 payment paid in January 2010 pursuant to the Compensation Agreement between the Bank and the CEO. For 2008, all other compensation reflects the payment of $8,500,000 made in January 2009 pursuant to the Compensation Agreement between the Bank and the CEO. In part, this payment was in exchange for the CEO's agreement to no longer participate in the Farm Credit Bank of Texas Supplemental Pension Plan. The CEO was eligible for a $4,500,000 payment in January 2010. The prorated amount of $4,500,000 as of December 31, 2008 was $321,430, which was earned in 2008 and is also reflected in All Other Compensation. See the Pension Benefits Table Narrative Disclosure for a more detailed explanation of the Compensation Agreement and the payments provided thereunder.

In December of 2010, a memorandum of understanding between the Bank and the CEO was executed with an effective date of January 2, 2011. The memorandum of understanding is effective for a term of three years, until December 31, 2013. The base salary for each year of the three year term for the CEO will be $1,250,000. Bonus payments, if any, are at the sole discretion of the compensation committee. With the execution and effective date of the memorandum of understanding, the CEO received a signing bonus of $500,000 paid in January 2011, with certain claw-back provisions should the CEO resign without good reason or employment is terminated by the Bank for cause. The employment relationship between the Bank and CEO remains at-will, meaning the Bank may terminate the CEO's employment at any time, and the CEO may choose to leave at any time.

(5) The Board of Directors reviews Mr. Rhodes' performance semi-annually. Mr. Rhodes is employed pursuant to a December 19, 2008 employment agreement (as amended on October 8, 2010) that expires December 31, 2011. The objective of the 2008 employment agreement was to extend Mr. Rhodes' employment and to provide for a transition period in the event of Mr. Rhodes' retirement. This was done primarily by eliminating uncertainties related to future incentives and by restructuring the non-qualified retirement benefits. Under this employment agreement, base salary, annual incentives, long-term incentives, and supplemental executive retirement plan (SERP) benefits have been pre-determined for each year of the employment agreement and as such, Mr. Rhodes is not a participant in any other merit, bonus or incentive plans. Included in "All Other Compensation" in the above table are SERP payments of $2.1 million paid to Mr. Rhodes in January 2010 and $1.2 million paid to him in January 2009. Correspondingly, these payments resulted in a decrease to the "Change in Pension Value."

(6) The Compensation Committee of the Board of Directors reviews Mr. Stewart's performance annually and the Board of Directors annually approves the compensation level, including base salary and incentive compensation. While being employed "at will," with no specified term of employment, the agreement provides that if Mr. Stewart is terminated for any reason, he will receive a severance benefit equal to six months base salary.

Pensions Benefits for the Year Ended December 31, 2010

Additional information on each Bank's pension benefits can be obtained by reference to the discussions provided in the Bank's annual report.

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit
AgFirst Farm Credit Bank			
F. A. Lowrey, CEO(1)	AgFirst Farm Credit Retirement Plan	36.33	$1,915,991
	AgFirst Farm Credit Bank Supplemental Retirement Plan	36.33	4,229,023
AgriBank, FCB			
L. William York, CEO(2)	AgriBank District Retirement Plan	20.89	314,986
CoBank, ACB			
Robert B. Engel, President and CEO(3)	CoBank, ACB Retirement Plan	10.58	297,238
	Supplemental Executive Retirement Plan	10.58	1,558,733
	Executive Retirement Plan	10.58	4,731,711
Farm Credit Bank of Texas			
Larry R. Doyle, CEO(4)	Farm Credit Bank of Texas Pension Plan	36.84	1,130,508
U.S. AgBank, FCB			
Darryl W. Rhodes, President and CEO(5)	Ninth District Pension Plan	40.10	1,677,420
	Supplemental Executive Retirement Plan		3,100,000
	Contingent SERP		450,000
Federal Farm Credit Banks Funding Corporation			
Jamie B. Stewart, Jr., President and CEO(6)	CoBank, ACB Retirement Plan	6.92	321,745
	Supplemental Executive Retirement Plan	6.92	1,592,952

Note: No pension benefit payments were made to any CEO during 2010.

(1) The AgFirst CEO participates in a defined benefit retirement plan. The CEO is eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Upon retirement, annual payout is equal to 2% times years of credited service times the high three-year average compensation, subject to the Internal Revenue Code limitation of $360,000 for 2010. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include bonuses or non-equity incentive plan compensation). Benefits under the plan are payable as a five-year certain and life annuity. Benefits under the plan are not subject to an offset for Social Security. Benefits that would have accrued had the IRS limits not been in place are made up through a non-qualified supplemental executive retirement plan.

(2) The AgriBank CEO has a frozen benefit that he earned under the final average pay formula of the defined benefit retirement plan for his prior service with the AgriBank District. Upon his rehire, he began earning benefits under the cash balance defined benefit retirement plan formula; however, credit is provided for his prior service. His benefit is based on the Internal Revenue Code limitation of $360,000 for 2010 at the contribution rate of 9%. In addition, he will receive an integrated contribution of 5% for all pay over the social security wage base of $106,800 for 2010 up to the IRS compensation limit. Pay in excess of the IRS limit is excluded from his qualified retirement benefit.

(3) The CoBank President and CEO participates in a final average pay defined benefit retirement plan, a noncontributory plan, an unfunded supplemental executive retirement plan and an unfunded executive retirement plan and is eligible to participate in the 401(k) retirement savings plan, which includes a matching contribution by the Bank. The President and CEO is also eligible to participate in a nonqualified deferred compensation plan that allows him to defer all or a portion of his incentive compensation. Additionally, the Bank makes contributions to this plan when his benefits under the 401(k) plan are limited due to Internal Revenue Code limits. Eligible compensation, as defined under the defined benefit plan final average pay formula, is the highest 60 consecutive-month average, which includes salary and incentive compensation measured over a period of one year or less, but excludes long-term incentive awards, expense reimbursements, taxable fringe benefits, relocation allowance, short- and long-term disability payments, nonqualified deferred compensation distributions, lump sum vacation payouts, and all severance payments. Compensation in excess of the Internal Revenue Code limits is covered through participation in the unfunded nonqualified supplemental executive retirement plan. Retirement benefits are calculated assuming payment in the form of a single life annuity with five years certain and retirement at Normal Retirement Age of 65. However, the actual form and timing of payments are based on participant elections. The plan requires five years of service to become vested. The benefit formula is the sum of 1.5 percent of eligible compensation up to Social Security covered compensation plus 1.75 percent of eligible compensation in excess of Social Security covered compensation, multiplied by years of eligible benefit service. Social Security covered compensation is the 35 year average of the Social Security taxable wage bases up to the participant's Social Security retirement age. In addition, an unfunded executive retirement plan has been adopted for the President and CEO. The President and CEO's agreement provides for a minimum retirement benefit of 41% of eligible compensation as of December 31, 2010, increasing to a maximum of 55% of eligible compensation as of December 31, 2015, with no reduction for early retirement. Further, the executive retirement plan is limited such that benefits provided under that plan are payable only if total retirement benefits payable per year from the three retirement plans does not exceed $850,000, expressed as a single life

annuity with five years certain. The President and CEO is also eligible for other postretirement benefits, upon reaching early retirement age. These primarily include access to medical plans. Participants in these other postretirement plans pay the premiums related to the plans.

(4) The FCB of Texas CEO participates in a defined benefit retirement plan (the "pension plan"). Through the end of 2008, the CEO also participated in the Farm Credit Bank of Texas Supplemental Pension Plan (the "Supplemental Pension Plan"), which is a nonqualified deferred compensation plan. Compensation, as defined in the Pension Plan, includes wages, incentive and bonus compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("FAC60"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65% of FAC60 times "Years of Benefit Service" and (b) 0.50% of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35). The CEO's Pension Plan benefit is offset by the CEO's pension benefits from another Farm Credit System institution. The present value of the CEO's accumulated Pension Plan benefit is calculated assuming retirement had occurred at the measurement date used for financial statement reporting purposes with retirement at age 58. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the CEO is married on the date the annuity begins, that the spouse is exactly 2 years younger than the CEO, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit. The Supplemental Pension Plan restores benefits under the Pension Plan that are limited or reduced (a) by the imposition of Internal Revenue Code limits, (b) by the exclusion of deferrals to a nonqualified deferred compensation plan from the definition of "Compensation" in the Pension Plan, (c) by the commencement of benefits prior to "Normal Retirement Age" for a Participant who has satisfied the Rule of 85 and is at least age 55, or (d) by a service period of greater than 35 years. After calculating the amount of Pension Plan benefits that are restored in the Supplemental Pension Plan, that amount is grossed-up for income taxes at a fixed rate. Supplemental Pension Plan benefits are payable 30 days after separation from service as a lump sum amount.

The CEO's earned benefit under the Supplemental Pension Plan was $8,537,622 as of December 2008 and was projected to increase significantly in the coming years based upon his "Years of Benefit Service" and anticipated total compensation during 2009, 2010, 2011, and 2012. Therefore, under a Compensation Agreement between the Bank and the CEO that was executed in November 2008, the Board approved the settlement of the Bank's obligations to the CEO under the Supplemental Pension Plan in order (a) to limit the Bank's potential future liability under the Supplemental Pension Plan; (b) to decrease the impact upon the Bank and the Supplemental Pension Plan of changes in compensation paid to the CEO, changes in interest rates, and changes in law; (c) to remove uncertainty for the Bank and the CEO with respect to the amount of the Supplemental Pension Plan benefit; (d) to agree upon a fixed amount of compensation for the CEO during 2009 and 2010; and (e) to provide incentives for the CEO to remain employed at least through the period involving the development of an important lending systems project. Pursuant to the terms and conditions of the Compensation Agreement, the CEO received the following benefits: (i) a payment of $8,500,000 in January 2009; (ii) deferred compensation in the amount of $4,500,000 was paid to the CEO in January 2010, (iii) annual base salary of $750,000 for 2009 and 2010. In exchange for those benefits, the Compensation Agreement provided that the CEO would not (1) participate in the Supplemental Pension Plan after January 1, 2009; (2) actively participate in another nonqualified plan the Bank has established; (3) earn any bonuses for performance during 2009 or 2010; and (4) receive the set severance payment of $1,000,000 which was provided under Mr. Doyle's "employment at will" agreement dated February 26, 2003.

The Compensation Agreement was not an employment contract. The deferred compensation provisions of the Compensation Agreement were intended to be an unfunded nonqualified deferred compensation plan for tax purposes, were not intended to meet the qualification requirements of Section 401(a) of the Internal Revenue Code, and were intended to be exempt from ERISA as a governmental plan exempted under ERISA § 4(b)(1). The Compensation Agreement was drafted to comply with the provisions of Section 409A of the Internal Revenue Code.

(5) The U.S. AgBank President and CEO participates in two defined benefit pension plans: the Ninth Farm Credit District Pension Plan (Pension Plan), which is a qualified defined benefit plan, and a Supplemental Executive Retirement Plan, which is a nonqualified retirement plan. Additionally, Mr. Rhodes participates in the 401(k) defined contribution plan, which has an employer matching contribution, and in a nonqualified deferred compensation plan, that allows Mr. Rhodes to defer compensation, which restores the benefits limited in the 401(k) plan as a result of restrictions in the Internal Revenue Code. In general, the Pension Plan will provide Mr. Rhodes with a 50% joint-and-survivor annuity benefit at normal retirement that is equal to 1.50% of his average monthly compensation during the 60 consecutive months in which he received his highest compensation (High 60) multiplied by his years of benefit service, plus 0.25% of the amount by which his High 60 exceeds covered compensation multiplied by his years of benefit service. The benefit is actuarially adjusted if Mr. Rhodes chooses a different form of distribution than a 50% joint-and-survivor annuity. The Pension Plan takes into account compensation up to the applicable Internal Revenue Code limitation which limit is $360,000 for 2010.

Prior to December 19, 2008, Mr. Rhodes participated in the U.S. AgBank District Pension Restoration Plan (Pension Restoration Plan) and in a SERP (Old SERP). The Pension Restoration Plan restored benefits under the Pension Plan that are limited by the Internal Revenue Code and by the exclusion of deferrals to a nonqualified deferred compensation plan from the definition of compensation in the Pension Plan. To determine the amount payable to Mr. Rhodes through the Old SERP, the benefits under the Pension Plan and the Pension Restoration Plan were first recalculated by using Mr. Rhodes average monthly compensation during the 36 consecutive months in which he received his highest compensation rather than the High 60. Then, that amount was offset by the actual benefits payable to Mr. Rhodes from the Pension Plan and the Pension Restoration Plan. As of December 19, 2008, Mr. Rhodes no longer participates in the Pension Restoration Plan or the Old SERP, and his vested benefits under those two plans were replaced by the guaranteed SERP payments set forth in his employment agreement. The Guaranteed SERP payments became fully vested on December 31, 2008 and as such were expensed and accrued as of December 31, 2008. Additional Contingent SERP benefits under the employment agreement are paid to Mr. Rhodes, depending on the length of his continued employment with U.S. AgBank. These Contingent SERP benefits were designed to replace the future benefits lost by Mr. Rhodes in connection with the 2008 termination of his participation in the Pension Restoration Plan and in the Old SERP. The SERP benefits are shown below in the year each is to be paid and will be paid in the first quarter of the respective years shown. The Contingent SERP benefits are earned and accrued through service in the prior year and are pro-rated in the event of service for less than the full year.

	2009	2010	2011	2012	2013	2014	2015
Guaranteed SERP	$1,200,000	$1,200,000	$1,100,000	$500,000	$500,000	$500,000	$500,000
Contingent SERP		$ 900,000	$ 450,000	$450,000			

Under the employment agreement, if U.S. AgBank terminates Mr. Rhodes' employment without cause before December 31, 2011, or if he terminates employment for good reason before December 31, 2011, Mr. Rhodes will be paid his base salary through the end of 2011; become vested in his annual incentive payments, long-term incentive payments, and Contingent SERP payments as though he had remained employed through 2011; receive payments to restore benefits that are limited by the Internal Revenue Code restrictions in the 401(k) Plan, the nonqualified deferred compensation plan, and the Pension Plan due to termination prior to December 31, 2011; and a payment of $200,000. However, such termination does not cause a change in the dates when incentive payments and Contingent SERP payments are paid. Under the employment agreement, if Mr. Rhodes' employment terminates in 2011 due to his death, a death benefit of $925,000 will be paid to his designated beneficiary

(6) The Funding Corporation President and CEO participates in a final average pay defined benefit retirement plan and participates in a 401(k) retirement savings plan, which includes a matching contribution by the Funding Corporation. Additionally, he participates in a supplemental executive retirement plan. The retirement plan benefits are payable in the form of a single life annuity with five years certain and calculated assuming retirement at the normal retirement age of 65. The plan requires five years of vesting service to become vested. The 2010 compensation covered by the retirement plan is subject to Internal Revenue Code limitations. The supplemental executive retirement plan ensures, among other things, that the President and CEO receives the full amount of benefits to which he would have been entitled in the absence of limits on benefit levels imposed by the Internal Revenue Code. For the President and CEO, this plan provides a potential supplemental retirement benefit based on 30% of the highest four-year average of base salary plus 25% of incentive compensation. These benefits became 100% vested upon completion of six years of service. After seven years, the percentage increases to 40%. Additional benefits can be incrementally earned up to a maximum of 50% upon completion of nine years of service. The annual benefits payable from the supplemental executive retirement plan are offset by annual benefits payable from the retirement plan.

AUDIT COMMITTEE REPORT

The Farm Credit Administration regulations with respect to disclosure to investors in Systemwide Debt Securities require the board of directors of the Funding Corporation to establish and maintain a System Audit Committee. These regulations specify that the System Audit Committee may not consist of less than three members and at least one member must be a financial expert. A financial expert must be the chairman of the System Audit Committee. Every member must be free from any relationship that, in the opinion of the board of directors of the Funding Corporation, would interfere with the exercise of independent judgment as a System Audit Committee member. The System Audit Committee reports to the board of directors of the Funding Corporation. The charter can be found on the Funding Corporation's website at www.farmcredit-ffcb.com. The responsibilities of the System Audit Committee include:

- the oversight of the Funding Corporation's system of internal controls related to the preparation of the System's quarterly and annual information statements,
- the integrity of the System's quarterly and annual information statements,
- the review and assessment of the impact of accounting and auditing developments on the System's combined financial statements,
- the review and assessment of the impact of accounting policy changes related to the preparation of the System's combined financial statements,
- the appointment, compensation, retention and oversight of the System's independent auditors,
- the pre-approval of allowable non-audit services at the System level,
- the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters at the System level.
- the receipt of various reports from management on internal controls, off-balance sheet arrangements, critical accounting policies, and material alternative accounting treatments,
- the review and approval of the scope and planning of the annual audit by the System's independent auditors,
- the approval of policies and procedures for the preparation of the System's quarterly and annual information statements, and
- the review and approval of the System's quarterly and annual information statements and financial press releases, after discussions with management and the independent auditors.

The System Audit Committee has reviewed and discussed the System's 2010 combined financial statements and the System's report on internal control over financial reporting, which were prepared under the oversight of the System Audit Committee, with senior management of the Funding Corporation and the independent auditors. In addition, the System Audit Committee discussed with the independent auditors the matters required to be discussed by Statement of Auditing Standards No. 114.

The System Audit Committee has also received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, and has discussed with the independent auditors their independence.

Based on the review and discussions referred to above, the System Audit Committee recommended that the audited combined financial statements be included in the System's *2010 Annual Information Statement.*

Norman N. Strauss (Chairman)
William F. Staats (Vice Chairman)
F. Gerald Byrne
Robert M. Tetrault

AUDIT FEES

The following table sets forth the aggregate fees billed for professional services rendered for the System by its independent auditor, PricewaterhouseCoopers LLP, for the years ended December 31, 2010 and 2009:

	2010	2009
	(in thousands)	
Audit	$8,953	$8,941
Audit-related	421	420
Tax	298	276
All Other	315	35
Total	$9,987	$9,672

The *Audit* fees were for professional services rendered for the audits of System entities and the audit of the System's internal control over financial reporting.

The *Audit-related* fees were for issuances of comfort letters for preferred stock offerings and subordinated debt issuances, and employee benefit plan audits.

Tax fees were for services related to tax compliance, including the preparation of tax returns and claims for refunds, and tax planning and tax advice.

All Other fees were for services rendered for other advisory and assistance services, which were approved by the appropriate audit committee.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2010, the Funding Corporation carried out an evaluation under the supervision and with the participation of the Funding Corporation's management, including the President and CEO and the Managing Director — Financial Management Division, of the effectiveness of the design and operation of the Funding Corporation's disclosure controls and procedures[1] with respect to this annual information statement. This evaluation relies upon the evaluations made by the individual Banks and the related certifications they provide to the Funding Corporation. Based upon and as of the date of the Funding Corporation's evaluation, the President and CEO and the Managing Director — Financial Management Division concluded that the disclosure controls and procedures are effective in alerting them on a timely basis of any material information relating to the System that is required to be disclosed by the System in the reports it files or submits to the Farm Credit Administration. There have been no significant changes in the System's internal control over financial reporting[2] that occurred during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the System's internal control over financial reporting.

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(1) For purposes of this discussion, "disclosure controls and procedures" are defined as controls and procedures of the System that are designed to ensure that the financial information required to be disclosed by the System in this annual information statement is recorded, processed, summarized and reported, within the time periods specified under the rules and regulations of the Farm Credit Administration.

(2) For purposes of this discussion, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the System's principal executives and principal financial officers, or persons performing similar functions, and effected by the System's boards of directors, managements and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the System's combined financial statements for external purposes in accordance with generally accepted accounting principles and 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 System; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the System's combined financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the System are being made only in accordance with authorizations of managements and directors of the System; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the System's assets that could have a material effect on the System's combined financial statements.

CERTIFICATION

I, Jamie B. Stewart, Jr., certify that:

1. I have reviewed the *2010 Annual Information Statement* of the Farm Credit System.

2. Based on my knowledge, this annual information statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual information statement.

3. Based on my knowledge, the financial statements, and other financial information included in this annual information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this annual information statement.

4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures[1] and internal control over financial reporting[2] for the System and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this annual information statement is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

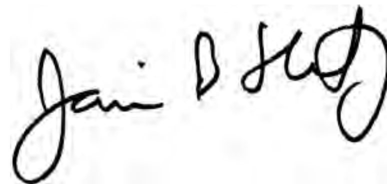
(c) evaluated the effectiveness of the System's disclosure controls and procedures and presented in this annual information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual information statement based on such evaluation; and

(d) disclosed in this annual information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.

5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's auditors and the System Audit Committee:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the System's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the System's internal control over financial reporting.



Jamie B. Stewart, Jr.
President and CEO

Date: March 1, 2011

(1) See footnote 1 on page S-26.
(2) See footnote 2 on page S-26.

CERTIFICATION

I, H. John Marsh, Jr., certify that:

1. I have reviewed the *2010 Annual Information Statement* of the Farm Credit System.

2. Based on my knowledge, this annual information statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual information statement.

3. Based on my knowledge, the financial statements, and other financial information included in this annual information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this annual information statement.

4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures[1] and internal control over financial reporting[2] for the System and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this annual information statement is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the System's disclosure controls and procedures and presented in this annual information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual information statement based on such evaluation; and

(d) disclosed in this annual information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.

5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's auditors and the System Audit Committee:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the System's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the System's internal control over financial reporting.

H. John Marsh, Jr.
Managing Director — Financial
Management Division

Date: March 1, 2011

(1) See footnote 1 on page S-26.

(2) See footnote 2 on page S-26.

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Description of Legal Proceedings and Enforcement Actions	Pages 30, 80 and Note 20
Description of Debt Securities	Pages 5, 6, 16, 20-23, 44, 66, 67, 71-73 and Notes 8 and 9
Description of Liabilities	Pages 5, 6, 16, 20-23, 44, 64, 67, 71-73 and Notes 6, 8, 9, 10, 11, 14 and 15
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* As used herein, the references to "Notes" mean the Notes to Combined Financial Statements found on pages F-8 through F-57 of this annual information statement.

FARM CREDIT SYSTEM ENTITIES (As of January 1, 2011)

BANKS

AgFirst Farm Credit Bank
P.O. Box 1499
Columbia, SC 29202-1499
(803) 799-5000

AgriBank, FCB
375 Jackson Street
St. Paul, MN 55101-1810
(651) 282-8800

CoBank, ACB
P.O. Box 5110
Denver, CO 80217-5110
(303) 740-4000

Farm Credit Bank of Texas
P.O. Box 202590
Austin, TX 78720-2590
(512) 465-0400

U.S. AgBank, FCB
P.O. Box 2940
Wichita, KS 67201-2940
(316) 266-5100

CERTAIN OTHER ENTITIES

Farm Credit Leasing Services Corporation
600 Highway 169 South, Suite 300
Minneapolis, MN 55426-1219
(952) 417-7800

Federal Farm Credit Banks
Funding Corporation
10 Exchange Place, Suite 1401
Jersey City, NJ 07302-3913
(201) 200-8000

FCS Building Association
1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000

The Farm Credit Council
50 F Street, NW
Washington, DC 20001-1530
(202) 626-8710

ASSOCIATIONS

AgFirst District

AgCarolina Financial, ACA
4000 Poole Road
Raleigh, NC 27610

AgChoice Farm Credit, ACA
900 Bent Creek Blvd.
Mechanicsburg, PA 17050-1860

Ag Credit, ACA
610 W. Lytle Street
Fostoria, OH 44830-3422

AgGeorgia Farm Credit, ACA
468 Perry Parkway
Perry, GA 31069

AgSouth Farm Credit, ACA
26 South Main Street
Statesboro, GA 30458

ArborOne, ACA
800 Woody Jones Blvd.
Florence, SC 29501

Cape Fear Farm Credit, ACA
333 East Russell Street
Fayetteville, NC 28301

Carolina Farm Credit, ACA
146 Victory Lane
Statesville, NC 28625

Central Kentucky, ACA
640 S. Broadway, Room 108
Lexington, KY 40588

Chattanooga, ACA
2826 Amnicola Highway
Chattanooga, TN 37406

Colonial Farm Credit, ACA
7104 Mechanicsville Turnpike
Mechanicsville, VA 23111

Farm Credit of Central Florida, ACA
115 S. Missouri Avenue, Suite 400
Lakeland, FL 33815

Farm Credit of Northwest Florida, ACA
5052 Highway 90 East
Marianna, FL 32446

Farm Credit of Florida, ACA
11903 Southern Blvd.
Suite 200
Royal Palm Beach, FL 33411

Farm Credit of the Virginias, ACA
106 Sangers Lane
Staunton, VA 24401

First South Farm Credit, ACA
713 S. Pear Orchard Road, Suite 300
Ridgeland, MS 39157

Jackson Purchase, ACA
328 East Broadway
Mayfield, KY 42066

MidAtlantic Farm Credit, ACA
45 Aileron Court
Westminster, MD 21157

Puerto Rico Farm Credit, ACA
213 Manuel V. Domenech Avenue
Hato Rey, PR 00918

Southwest Georgia Farm Credit, ACA
305 Colquitt Highway
Bainbridge, GA 39817

AgriBank District

1st Farm Credit Services, ACA
2000 Jacobssen Drive
Normal, IL 61761

AgCountry Farm Credit Services, ACA
1900 44th Street South
Fargo, ND 58108

AgHeritage Farm Credit Services, ACA
119 East Third Street, Suite 200
Little Rock, AR 72201

AgStar Financial Services, ACA
1921 Premier Drive
Mankato, MN 56001

Badgerland Financial, ACA
315 Broadway
Baraboo, WI 53913-0069

Delta ACA
118 E. Speedway
Dermott, AR 71638

Farm Credit Midsouth, ACA
3000 Prosperity Drive
Jonesboro, AR 72404

Farm Credit Services of America, ACA
5015 South 118th Street
Omaha, NE 68137

Farm Credit Services of Illinois, ACA
1100 Farm Credit Drive
Mahomet IL 61853

Farm Credit Services of Mandan, ACA
1600 Old Red Trail
Mandan, ND 58554

Farm Credit Services of Mid-America, ACA
1601 UPS Drive
Louisville, KY 40232-4390

Farm Credit Services of North Dakota, ACA
3100 10th Street, SW
Minot, ND 58702-0070

Farm Credit Services of Western Arkansas, ACA
3115 West 2nd Court
Russellville, AR 72801

FCS Financial, ACA
1934 E. Miller Street
Jefferson City, MO 65101-3881

GreenStone Farm Credit Services, ACA
3515 West Road
East Lansing, MI 48823

Progressive Farm Credit Services, ACA
1116 N. Main Street
Sikeston, MO 63801

United Farm Credit Services, ACA
3881 Abbott Drive
Willmar, MN 56201-1560

CoBank District

Farm Credit of Maine, ACA
615 Minot Avenue
Auburn, ME 04210

Farm Credit East, ACA
240 South Road
Enfield, CT 06082

Northwest Farm Credit Services, ACA
1700 South Assembly Street
Spokane, WA 99220

Yankee Farm Credit, ACA
289 Hurricane Lane, Suite 102
Williston, VT 05495

Texas District

Ag New Mexico, Farm Credit Services, ACA
233 Fairway Terrace North
Clovis, NM 88101

AgriLand, Farm Credit Services
3210 W. Northwest Loop 323
Tyler, TX 75702

AgTexas Farm Credit Services
6901 Quaker Avenue, Suite 300
Lubbock, TX 79413

Alabama AgCredit, ACA
7602 Halcyon Summit Drive
Montgomery, AL 36117

Alabama Farm Credit, ACA
1740 Eva Road NE
Cullman, AL 35055

Capital Farm Credit, ACA
507 E. 26th Street
Bryan, TX 77803

Central Texas Farm Credit, ACA
215 W. Elm Street
Coleman, TX 76834

Great Plains Ag Credit, ACA
5701 I-40 West
Amarillo, TX 79106

Heritage Land Bank, ACA
4608 Kinsey Drive, Suite 100
Tyler, TX 75703

Legacy AgCredit, ACA
303 Connally Street
Sulphur Springs, TX 75482

Lone Star AgCredit, ACA
1612 Summit Avenue, Suite 300
Fort Worth, TX 76102

Louisiana Land Bank, ACA
2413 Tower Drive
Monroe, LA 71201

Mississippi Land Bank, ACA
5509 Highway 51 North
Senatobia, MS 38668

Panhandle-Plains Land Bank, FLCA
5700 Southwest 45th
Amarillo, TX 79109-5204

Southern AgCredit, ACA
402 West Parkway Place
Ridgeland, MS 39157

Texas AgFinance, Farm Credit Services
545 South Highway 77
Robstown, TX 78380

Texas Land Bank, ACA
13525 Sandalwood Drive
Waco, TX 76712

U.S. AgBank District

AgPreference, ACA
3120 North Main
Altus, OK 73521

American AgCredit, ACA
200 Concourse Boulevard
Santa Rosa, CA 95403

Chisholm Trail Farm Credit, ACA
805 Chisholm Trail
Enid, OK 73701

Farm Credit of Central Oklahoma, ACA
509 W. Georgia Avenue
Anadarko, OK 73005

Farm Credit of Enid, ACA
1605 W. Owen K. Garriott Road
Enid, OK 73703

Farm Credit of Ness City, FLCA
19332 State Highway 96
Ness City, KS 67560

Farm Credit of New Mexico, ACA
5651 Balloon Fiesta Parkway NE
Albuquerque, NM 87113

Farm Credit of Southern Colorado, ACA
3625 Citadel Drive South
Colorado Springs, CO 80909

Farm Credit of Southwest Kansas, ACA
1606 E. Kansas Avenue
Garden City, KS 67846

Farm Credit of Western Kansas, ACA
1190 South Range Avenue
Colby, KS 67701

Farm Credit of Western Oklahoma, ACA
3302 Williams Avenue
Woodward, OK 73801

Farm Credit Services of Colusa-Glenn, ACA
605 Jay Street
Colusa, CA 95932

Farm Credit Services of East Central
Oklahoma, ACA
601 E. Kenosha Street
Broken Arrow, OK 74012

Farm Credit Services of Hawaii, ACA
2850 Pa'a Street, Suite 100
Honolulu, HI 96819

Farm Credit Services of The Mountain Plains, ACA
4505 29th Street W.
Greeley, CO 80634

Farm Credit Services Southwest, ACA
3003 S. Fair Lane
Tempe, AZ 85282

Farm Credit West, ACA
1478 Stone Point Drive, Suite 450
Roseville, CA 95661

Federal Land Bank Association of Kingsburg,
FLCA
1580 Ellis Street
Kingsburg, CA 93631

Fresno-Madera Farm Credit, ACA
4635 West Spruce Ave.
Fresno, CA 93722

Frontier Farm Credit, ACA
2401 N. Seth Child Road
Manhattan, KS 66502

High Plains Farm Credit, ACA
605 Main Street
Larned, KS 67550

Idaho Agricultural Credit Association
188 West Judicial
Blackfoot, ID 83221

Northern California Farm Credit, ACA
3435 Silverbell Road
Chico, CA 95973

Premier Farm Credit, ACA
202 Poplar Street
Sterling, CO 80751

Western AgCredit, ACA
10980 South Jordan Gateway
South Jordan, UT 84095

Yosemite Farm Credit, ACA
800 West Monte Vista Avenue
Turlock, CA 95382