

# **American AgCredit, ACA**

## **2011 First Quarter Report to Shareholders**

The shareholders' investment in Farm Credit of American AgCredit, ACA is materially affected by the financial condition and results of operations of U.S. AgBank, FCB, (AgBank). The 2010 AgBank Annual Report to Shareholders, the 2010 AgBank District Annual Report to Shareholders, the AgBank quarterly shareholders' reports and the AgBank District quarterly shareholders' reports are available on AgBank's web site, [www.usagbank.com](http://www.usagbank.com), or may be obtained at no charge by calling American AgCredit at (800) 800-4865 or visiting the office at 200 Concourse Blvd. Santa Rosa, CA 95403.

## Message to Stockholders

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Dear Stockholder:

We're pleased to report that American AgCredit recorded another period of solid financial performance in the first quarter of 2011. The Association continues to generate strong earnings despite persistently sluggish conditions in the broader economy. Capital and liquidity levels remain strong. Most importantly, the Association is well positioned to serve the borrowing needs of its customer-owners throughout its broad lending territory, both today and for future generations.

Economic conditions for agricultural operators continue to be challenging. The dairy industry, in particular, combats increasing input costs and fluctuating milk prices, which have increased marginally since last quarter but remain volatile. The housing industry remains in a prolonged slump that has adversely affected our timber products and nursery customers. Other commodities have managed to sustain relative profitability but are far from stellar performance levels. We anticipate that market conditions will continue to be lackluster throughout 2011 and that the Fed will hold interest rates at current low levels to stimulate economic growth. Our goal is to continue to carefully manage the credit quality of our existing portfolio and to seek opportunities for growth that are prudent and reasonable in the current environment.

The proposed merger between our funding bank, U.S. AgBank, and CoBank is moving forward and anticipated to be consummated before the end of the year. This merger will produce many advantages to the Association in terms of funding options, capital management and access to new products and services. In addition, the Association is moving ahead with the proposed merger with Mountain Plains Farm Credit and expects to have a merger packet for shareholder review and a vote by December.

**Financial Condition and Results of Operations:** First quarter income totaled \$41.5 million compared to \$26.4 million a year ago. Income was substantially affected by the receipt of \$23 million in patronage dividends from Farm Credit institutions with which the Association transacts business. Net interest income is down \$1.8 million from the prior year as a result of lower loan volume. The Association's loan portfolio is down \$327 million, or 7%, from the same period in 2010. This drop in volume is due to the general lack of demand during the present economic downturn as well as the loss of several large capital market loans that were refinanced or repurchased by other lenders. Operating costs decreased \$1.1 million since the prior year, primarily in the area of employee costs. Annualized return on average assets for the quarter was 3.54% thanks in part to the patronage income noted above. Member's equity exceeds \$1.05 billion and the Association's permanent capital ratio, a measure of risk-bearing capability, was 19.48% at quarter-end compared to 17.57% a year earlier.

Non-accrual loans stand at \$70.2 million, down \$400,000 from the 1<sup>st</sup> quarter of 2010. Nonaccrual loans represent 1.6% of total loan volume. The Association also carries \$32.9 million of properties acquired through foreclosure on its Balance Sheet at March 31. This compares to \$5.7 million in such properties at March 31, 2010.

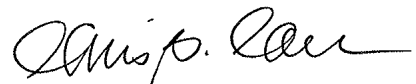
The undersigned certify that the 2011 1st Quarter Shareholder Report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Dave Santos  
Chairman



Ron Carli  
Chief Executive Officer



Chris B. Call  
Chief Financial Officer

April 30, 2011

**FINANCIAL STATEMENTS**

(\$000s)

STATEMENT OF CONDITION	March 31		Dec. 31	
	2011	2010	2010	2009
	Unaudited	Unaudited	Audited	Audited
<b>ASSETS</b>				
Loans	<b>\$4,293,104</b>	\$4,620,379	\$4,574,439	\$4,747,370
Less: allowance for loan losses	<b>(18,635)</b>	(17,542)	(18,227)	(12,293)
Net Loans	<b>4,274,469</b>	4,602,837	4,556,212	4,735,077
Investment in the U.S. AgBank	<b>119,327</b>	119,327	119,327	119,327
Investment in CoBank	<b>15,320</b>	13,598	13,598	11,622
Accrued interest receivable	<b>37,866</b>	41,188	42,167	44,792
Premises and equipment	<b>33,488</b>	30,242	32,664	27,829
Other Property Owned	<b>32,953</b>	5,753	25,739	4,626
Other Assets	<b>23,558</b>	26,716	36,538	39,901
Total Assets	<b>\$4,536,981</b>	\$4,839,661	\$4,826,245	\$4,983,174
<b>LIABILITIES</b>				
Note payable to Farm Cr. Bank	<b>\$3,418,106</b>	\$3,778,821	\$3,696,605	\$3,925,037
Funds Held Accounts	<b>18,858</b>	10,008	11,414	7,001
Accrued interest payable	<b>11,571</b>	14,163	15,841	17,598
Other liabilities	<b>28,888</b>	30,130	62,496	58,640
Total Liabilities	<b>\$3,477,423</b>	3,833,122	\$3,786,356	\$4,008,276
<b>MEMBERS' EQUITY</b>				
Common stock and participation certificates	<b>\$6,324</b>	6,645	\$6,371	\$6,722
Preferred stock	<b>104,236</b>	121,601	125,957	116,286
Additional Paid in Capital	<b>206,226</b>	206,226	206,226	206,226
Unallocated retained earnings	<b>742,772</b>	672,067	701,335	645,664
Total Members' Equity	<b>1,059,558</b>	1,006,539	1,039,889	974,898
Total Liabilities and Members' Equity	<b>\$4,536,981</b>	\$4,839,661	\$4,826,245	\$4,983,174

**STATEMENT OF INCOME**

Unaudited

For the three months  
ended March 31

	2011	2010
Interest income	<b>\$54,011</b>	\$60,596
Interest expense	<b>(21,419)</b>	(26,197)
Net interest income	<b>32,592</b>	34,399
Other income	<b>28,429</b>	16,859
Loan Loss (Provision)/Benefit	<b>(1,780)</b>	(6,704)
Operating and other expenses	<b>(17,742)</b>	(18,859)
Income before taxes	<b>41,499</b>	25,695
Benefit /(Provision) for income taxes	<b>(19)</b>	709
Net income	<b>\$41,480</b>	\$26,404

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

## STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the three months ended March 31, 2010 and 2011

	Capital Stock	Preferred Stock	Additional Paid in Capital	Unallocated Retained Earnings	Total Members' Equity
<b>Balance at December 31, 2009</b>	<b>\$6,722</b>	<b>\$116,286</b>	<b>\$206,226</b>	<b>\$645,664</b>	<b>\$974,898</b>
Comprehensive Income					
Net income				26,404	26,404
Amortization of costs included in net periodic benefit cost				20	20
Total Comprehensive Income					26,424
Stock issued	80	39,796			39,876
Stock retired	(157)	(34,638)			(34,795)
Preferred stock dividends paid		157		(157)	-
Adjustment to patronage declared				136	136
<b>Balance at March 31, 2010</b>	<b>\$6,645</b>	<b>\$121,601</b>	<b>\$206,226</b>	<b>\$672,067</b>	<b>\$1,006,539</b>
<b>Balance at December 31, 2010</b>	<b>\$6,371</b>	<b>\$125,957</b>	<b>\$206,226</b>	<b>\$701,335</b>	<b>\$1,039,889</b>
Comprehensive Income					
Net income				41,480	41,480
Amortization of costs included in net periodic benefit cost				(6)	(6)
Total Comprehensive Income					41,474
Stock issued	117	30,949			31,066
Stock retired	(164)	(52,813)			(52,977)
Preferred stock dividends paid		143		(143)	-
Adjustment to patronage declared				106	106
<b>Balance at March 31, 2011</b>	<b>\$6,324</b>	<b>\$104,236</b>	<b>\$206,226</b>	<b>\$742,772</b>	<b>\$1,059,558</b>

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

# Notes to the Financial Statements

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*(Unaudited)*

## **NOTE 1 - Organization and Significant Accounting Policies**

A description of the organization and operations of the American AgCredit, ACA (Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2010 are contained in the 2010 Annual Report to Stockholders (2010 Annual Report) for American AgCredit, ACA. These unaudited first quarter 2011 financial statements of the Association should be read in conjunction with the 2010 Annual Report. The financial statements were prepared under the oversight of the audit committee of the board of directors. The financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to generally accepted accounting principles and prevailing practices within the banking industry. The results of operations for the three-month period ended March 31, 2011 are not necessarily indicative of results to be expected for the full year.

In November of 2010, the U.S. AgBank Board of Directors voted to pursue a merger with CoBank, ACB, (CoBank) another Farm Credit System Bank. The proposed merger is targeted to be effective on October 1, 2011. The Association does not expect there to be any material negative impact to its operations as a result of the merger.

In September 2010, the Board of Directors signed a Letter of Intent to merge with Mountain Plains Farm Credit Services, ACA (Mountain Plains) headquartered in Greeley, Colorado. Under the terms of the letter, Mountain Plains would be merged into American AgCredit, and the new association would be headquartered in Santa Rosa, California and be called American AgCredit. A comprehensive disclosure package will be sent to stockholders of both organizations prior to a stockholder vote. The merger is not expected to be consummated until 2012.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses," which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the 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 by class, 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 beginning on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of this Standard should have no impact on the Association's financial condition or results of operations, but will result in additional disclosures.

Effective January 1, 2010, the Association adopted Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance will provide for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures.

## **NOTE 2 - Capital**

At March 31, 2011, the Association's regulatory capital ratio was 19.48%, which exceeds the minimum of 7.00% required by our regulators, the Farm Credit Administration.

Association shareholders have approved a class of preferred stock known as H Stock. At March 31, 2011 200 million shares of the stock are authorized at \$1.00 par value. H stock ownership is limited to existing common stockholders of the Association and is considered "at-risk". The stock bears a dividend rate that is set by the Board of Directors. Retirement of the stock is at the discretion of the Board. At March 31, 2011 there were 104,236,039 shares of H stock issued and outstanding. The dividend rate at March 31, 2011 was 0.50%.

### NOTE 3 - Allowance for Loan Losses

A summary of activity in the allowance for loan losses follows (in 000s):

#### For the three months ended March 31:

	<u>2011</u>	<u>2010</u>
Beginning balance - Jan. 1	\$18,227	\$12,293
Recoveries	36	1
Loss provision adjustment	1,781	6,704
Loans charged off	<u>(1,409)</u>	<u>(1,456)</u>
Ending balance - March 31	<u>\$18,635</u>	<u>\$17,542</u>

The determination of the allowance for loan losses is based on estimates that are susceptible to changes in the economic environment and market conditions, and is based on the Association's past loss experience, known and inherent risks in the portfolio, the estimated value of the underlying collateral, and current economic conditions. Management believes that as of March 31, 2011, the allowance for loan losses is adequate based on information currently available.

The following table presents information concerning impaired loans as of March 31, (in 000s)

	<u>2011</u>	<u>2010</u>
Impaired loans with related allowance	\$7,407	\$36,984
Impaired loans with no related allowance	63,819	\$34,115
Total impaired loans	<u>\$71,226</u>	<u>\$71,099</u>
Allowance on impaired loans	<u>\$1,897</u>	\$5,381

Impaired loan information for the quarter ended March 31, is summarized as follows, (in 000s):

	<u>2011</u>	<u>2010</u>
Average impaired loans	\$68,426	\$70,868
Interest income recognized on impaired loans	(\$109)	\$87

### NOTE 4 - Purchased and Sold Loans

The Association, in the normal course of business, purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. All loans sold to others are sold without recourse. The following table presents information regarding participations purchased and sold during the quarter ended March 31, 2011 (in millions):

	<u>March 31, 2011</u>	<u>March 31, 2010</u>	<u>Dec. 31, 2010</u>
Loans purchased from others	\$458.7	\$564.4	\$545.9
Loans sold to others	\$2,493.5	\$2,656.1	\$2,549.4
Retained interest in sold loans	\$600.5	\$674.5	\$614.7
Syndications serviced for others	\$1,525.0	\$1,620.7	\$1,276.5
Loans sold to and serviced for Farmer Mac	\$0.3	\$0.4	\$0.4

### NOTE 5 - Fair Value Measurements

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2010 Annual Report to Stockholders.

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2011 for each of the fair value hierarchy values are summarized below, (in 000s):

	<u>Level 3</u>	<u>Fair Value Measurement Using Total Fair Value</u>	<u>Total Gains/(Losses)</u>
<b>Assets:</b>			
Loans	\$5,402	\$5,402	(\$119)
Other property owned	\$35,134	\$35,134	\$1,539
Loans acquired in merger	\$460,203	\$460,203	(\$1,868)
<b>Liabilities:</b>			
Debt acquired in merger	\$685,176	\$685,176	\$2,525

### **Valuation Techniques**

Accounting 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 for the Associations' assets and liabilities.

#### *Impaired Loans*

For certain loans evaluated for impairment, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. These loans are generally classified as Level 3.

#### *Loans and Debt acquired in merger*

At the merger of American AgCredit and Farm Credit of the Heartlands on November 30, 2009, the Association acquired loans receivable and related notes payable. These assets and liabilities were recorded at their fair market value, as determined by discounting the expected future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit risk, on the date of merger. The fair market value has been amortized consistent with generally accepted accounting principles. The values shown in the table above represent the unamortized fair values of the assets and liabilities as of March 31, 2011.

#### *Other Property Owned*

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the assets' fair value.

### **NOTE 6 - Subsequent Events**

The Association has evaluated subsequent events through April 30, 2011 which is the date the financial statements were issued.