

SECOND QUARTER 2009

TABLE OF CONTENTS

Report on Internal Control Over Financial Reporting.....	2
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	3
Consolidated Financial Statements	
Consolidated Balance Sheets.....	6
Consolidated Statements of Income.....	7
Consolidated Statements of Changes in Members' Equity.....	8
Notes to the Consolidated Financial Statements.....	9

CERTIFICATION

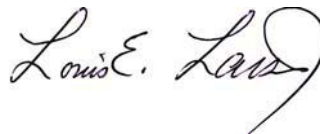
The undersigned certify that we have reviewed the June 30, 2009 quarterly report of Farm Credit of South Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Don Rice
Chief Executive Officer



Linda Rusciano
Chief Financial Officer



Louis E. Larson, Jr.
Chairman of the Board

July 28, 2009

Farm Credit of South Florida, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidate Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2009. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of June 30, 2009, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2009



Don Rice
Chief Executive Officer



Linda Rusciano
Chief Financial Officer

July 28, 2009

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of South Florida, ACA, (Association) for the period ended June 30, 2009. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2008 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including citrus, vegetables, sugar, cattle, dairy, nurseries and tropical fruits. During the 2002 through 2007, the Association's territory witnessed a rapid appreciation of real estate values offset by a significant decline since the summer of 2007, leaving the South Florida real estate market in shambles. The overall volume of sales transactions has declined significantly, and recently, sellers have begun to reduce prices hoping to attract a buyer. Land prices have declined 30-50% and the South Florida housing market currently has one of the highest foreclosure rates in the country.

In addition to the volatile real estate market, the Association's territory was impacted by hurricanes in 2004 and 2005. These storms severely impacted our nursery growers. Most of them had collateral and/or crop insurance that helped cover their losses. The loss of inventory from these storms, coupled with higher demand related to housing growths during those periods, led to increased production and expansion in anticipation of higher sales in 2008. Subsequently, the real estate market decline and water restrictions, imposed as a result of last year's drought, have resulted in a significant reduction in plant sales and oversupply of product. Growers are currently stressed and finding it necessary to adjust their operations to bring costs in line with lower sales and reductions in prices. Out of state Spring 2009 sales were good, although in-state sales were poor. Demand for landscape products and field grown trees continues to be depressed due to the economic condition of the housing market. Many producers have realized their trees will be too large when the industry recovers and have begun to destroy existing inventory and replant. The 2008-09 citrus crop is expected to be down from last season and prices are

averaging \$.88/bl solids. Citrus canker and citrus greening continue to plague growers and these diseases continue to severely impact the decline of citrus acreage in the state. The industry is currently looking into mass grove spraying as a deterrent to these diseases. Cattle prices remain in the mid \$.80/lb range and are projected to increase slightly during the next twelve months. Exports of beef currently exceed beef imports. The recession has reduced the demand for beef in restaurants resulting in a decline in demand for higher cuts of beef. This is lowering the price feed lots are willing to pay for feeders and resulted in lower cattle prices. Milk demand has decreased and dairies are culling herds which is driving down the price for slaughter cows. Milk prices for 2008 were the highest on record but have fallen to an average of \$.17/cwt for 2009. The high price during 2008 was a result of a larger demand of powdered milk and cheese for exports but these demands have declined due to the recession. Feed costs have declined due to lower corn and transportation costs. Most dairies are losing \$100-150 per month per cow. The 2008-09 sugarcane harvest is complete with average yields overall. Growers are concerned about increased fuel and fertilizer costs without a corresponding increase in the price of sugar. The 2008-09 vegetable season is complete. Winter corn in the Glades was lost due to the freeze and the Homestead area growers received favorable prices for their product. Bean and squash prices were fair but pepper and tomato prices were poor throughout most of the season.

The gross loan volume of the Association as of June 30, 2009, was \$578,531, a decrease of \$10,713 as compared to \$589,244 at December 31, 2008. Net loans outstanding at June 30, 2009, were \$567,711 as compared to \$581,193 at December 31, 2008 a decrease of 2.32 percent. Net loans accounted for 95.35 percent of total assets at June 30, 2009, as compared to 95.42 percent of total assets at December 31, 2008. The decrease in both gross and net loan volume during the period is primarily attributed to the repayment of short term operating loans as producers wrapped up their 2009 crop season.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to decline but remains at an acceptable level and credit administration is satisfactory. Nonaccrual loans increased to \$19,597 from the \$14,394 balance at December 31, 2008. This increase is the result of thirteen additional borrowers being moved to nonaccrual status during the period, offset by three properties moved to other property owned, after being acquired through foreclosure. Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on

current and expected future conditions. The allowance for loan losses at June 30, 2009, was \$10,820 compared to \$8,051 at December 31, 2008. This increase is the result of a \$4,000 provision for loan loss booked in the second quarter offset by \$1,651 charge-offs recorded on loans transferred to nonaccrual or other property owned during the period net of \$420 in recoveries. Management considers the current level of allowance to be adequate to cover additional possible losses. The ratio of the allowance for loan losses to gross loans at June 30, 2009 was 1.87 percent. During the period, the Association modified the organizational structure adding a risk management department and a credit department to enhance internal controls by segmenting these functions into stand alone units. Additionally, Mr. William E. Bowman, Jr., a director for more than thirty years, resigned for personal reasons.

RESULTS OF OPERATIONS

For the three months ended June 30, 2009

Net income for the three months ended June 30, 2009, totaled \$270, as compared to \$3,712 for the same period in 2008. This decrease is primarily attributed to the \$4,000 provision for loan loss booked during the period. It is also a result of a \$142 decline in net interest income offset by increases in noninterest income. Net interest income was \$3,891 as of June 30, 2009 as compared to \$4,033 June 30, 2008. The decline in net interest income represents a decline of 3.52 percent when compared to the same period last year. This decrease is attributed to the reduction of variable interest rates and the decrease in loan volume.

Noninterest income for the three months ended June 30, 2009, totaled \$2,521, as compared to \$1,923 for the same period of 2008, an increase of \$598 or 31.1 percent. This increase is attributed primarily to additional fees earned for financially related services of \$285, \$127 of loan fees, other noninterest income of \$235 and equity earnings from Farm Credit institutions of \$73. These increases in noninterest income were offset by losses on other property owned of \$122.

Noninterest expense for the three months ended June 30, 2009, increased \$423 or 24.61 percent compared to the same period of 2008. The primary reasons for the increase in noninterest expense is attributed to \$356 in salaries and employee benefits and \$39 in the Farm Credit Insurance Fund premium, \$23 in other operating expense and \$5 in occupancy and equipment expense.

For the six months ended June 30, 2008

Net income for the six months ended June 30, 2009, totaled \$4,464 compared to \$8,542 for the same period in 2008. This decrease is primarily the result of a \$4,000 provision to the allowance for loan losses during the second quarter to cover potential losses on loans in nonaccrual status and other declines in the portfolio's credit quality. Net interest income

decreased \$328 for the six months ended June 30, 2009, as compared to the same period in 2008. Decreases in variable interest rates and a decrease in portfolio volume are the primary reasons for this decline.

Noninterest income for the six months ended June 30, 2009, totaled \$4,702 as compared to \$4,489 for the same period of 2008, an increase of \$213 or 4.74%. This increase is attributed to increases of \$262 in equity earnings from AgFirst Farm Credit Bank and \$199 in other noninterest income offset by \$133 in losses on other preoperty owned, and decreases of \$69 in financially related services income and \$46 in loan fees. Noninterest expense for the six months ended June 30, 2009, increased \$488 compared to the same period of 2008. The primary reasons for the increase in noninterest expense were increases of \$407 in salaries and benefits, \$78 in the Farm Credit Insurance Fund premium and \$13 in other operating expenses offset by a decrease of \$10 in occupancy and equipment expense.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. These funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2009, was \$475,477 as compared to \$484,670 at December 31, 2008. The decrease during the period of \$9,193 is primarily attributed to the decrease in the loan portfolio and fluctuations in the usage of borrower SmartCash accounts. SmartCash accounts, a voluntary additional conditional payment fund, which are offset against the related loan outstanding in the portfolio, can influence fluctuations in volume and notes payable with the Bank. SmartCash balances at June 30, 2009 were \$5,853 as compared to \$7,646 at December 31, 2008. Additional SmartCash funds, held in Other Liabilities against commitment balances totaled \$4,450 as of June 30, 2009 as compared to \$7,387 at year-end.

CAPITAL RESOURCES

Total members' equity at June 30, 2009, increased to \$109,552 from the December 31, 2008 total of \$105,127. The increase is primarily attributed to an increase in retained earnings during the period.

Total capital stock and participation certificates were \$3,176 on June 30, 2009, compared to \$3,235 on December 31, 2008. This decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the

normal course of business and new loans being capitalized at new lower regulatory levels.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2009, the Association's total surplus ratio and core surplus ratio were 15.79 percent and 15.79 percent, respectively, and the permanent capital ratio was 15.84 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

Note: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request, free of charge, by calling (561)-965-9001, or writing Linda Rusciano, CFO, Farm Credit of South Florida, ACA, P. O. Box 213069, Royal Palm Beach, FL 33421, or accessing the website, www.farmcreditsfl.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of South Florida, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30,		December 31,
	2009	2008	2008
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Assets			
Cash	\$ 792	\$ 260	\$ 408
Investment securities:			
Held to maturity (fair value of \$2,840, \$3,650 and \$3,215 respectively)	2,834	3,638	3,221
Total investment securities	2,834	3,638	3,221
Loans	578,531	549,640	589,244
Less: allowance for loan losses	10,820	5,184	8,051
Net loans	567,711	544,456	581,193
Accrued interest receivable	3,143	3,923	3,112
Investment in other Farm Credit institutions	7,945	7,649	7,857
Premises and equipment, net	5,740	6,544	5,793
Other property owned	1,319	—	—
Due from AgFirst Farm Credit Bank	1,895	1,719	3,614
Other assets	4,005	4,046	3,893
Total assets	\$ 595,384	\$ 572,235	\$ 609,091
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 475,477	\$ 449,319	\$ 484,670
Accrued interest payable	1,250	1,719	1,579
Patronage refund payable	120	326	5,349
Advanced conditional payments	4,450	9,685	7,387
Other liabilities	4,535	6,610	4,979
Total liabilities	485,832	467,659	503,964
Commitments and contingencies			
Members' Equity			
Protected borrower equity	2,519	2,556	2,538
Capital stock and participation certificates	657	752	697
Retained earnings			
Allocated	22,399	19,080	22,550
Unallocated	83,977	82,188	79,342
Total members' equity	109,552	104,576	105,127
Total liabilities and members' equity	\$ 595,384	\$ 572,235	\$ 609,091

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

Farm Credit of South Florida, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
Interest Income				
Investment securities	\$ 16	\$ 34	\$ 21	\$ 79
Loans	7,732	9,247	15,868	19,337
Total interest income	7,748	9,281	15,889	19,416
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	3,857	5,248	8,021	11,220
Net interest income	3,891	4,033	7,868	8,196
Provision for (reversal of allowance for) loan losses	4,000	525	4,000	525
Net interest income after provision for (reversal of allowance for) loan losses	(109)	3,508	3,868	7,671
Noninterest Income				
Loan fees	858	731	1,514	1,560
Fees for financially related services	521	236	848	917
Equity in earnings of other Farm Credit institutions	953	880	2,172	1,910
Gains (losses) on other property owned, net	(116)	6	(120)	13
Other noninterest income	305	70	288	89
Total noninterest income	2,521	1,923	4,702	4,489
Noninterest Expense				
Salaries and employee benefits	1,458	1,102	2,744	2,337
Occupancy and equipment	150	145	283	293
Insurance Fund premium	232	193	457	379
Other operating expenses	302	279	622	609
Total noninterest expense	2,142	1,719	4,106	3,618
Income before income taxes	270	3,712	4,464	8,542
Provision (benefit) for income taxes	—	—	—	—
Net income	\$ 270	\$ 3,712	\$ 4,464	\$ 8,542

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

Farm Credit of South Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2007	\$ 2,682	\$ 725	\$ 22,483	\$ 73,302	\$ 99,192
Net income				8,542	8,542
Protected borrower equity retired	(126)				(126)
Capital stock/participation certificates issued/(retired), net		27			27
Retained earnings retired			(3,237)		(3,237)
Patronage distribution adjustment			(166)	344	178
Balance at June 30, 2008	\$ 2,556	\$ 752	\$ 19,080	\$ 82,188	\$ 104,576
Balance at December 31, 2008	\$ 2,538	\$ 697	\$ 22,550	\$ 79,342	\$ 105,127
Net income				4,464	4,464
Protected borrower equity retired	(19)				(19)
Capital stock/participation certificates issued/(retired), net		(40)			(40)
Patronage distribution adjustment			(151)	171	20
Balance at June 30, 2009	\$ 2,519	\$ 657	\$ 22,399	\$ 83,977	\$ 109,552

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

Notes to the Consolidated Financial Statements

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

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

The accompanying financial statements include the accounts of Farm Credit of South Florida, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2008, are contained in the 2008 Annual Report to Shareholders. These unaudited second quarter 2009 consolidated financial statements should be read in conjunction with the 2008 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the six months ended June 30, 2009, are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2009, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In addition to the recently issued accounting pronouncements discussed in the 2008 Annual Report to Shareholders, effective January 1, 2009, the Association adopted Financial Accounting Standards Board (FASB) Statement of Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. The impact of adoption requires additional fair value disclosures (see Note 5), primarily regarding other property owned, but does not have an impact on the Association's financial condition or results of operations.

In April 2009, the FASB issued FSP No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP 157-4). FSP 157-4 emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for the fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. FSP 157-4 indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

FSP 157-4 also requires a reporting entity to make additional disclosures in interim and annual periods. It is effective for interim periods ending after June 15, 2009 (see Note 2 and Note 5). Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate.

In April 2009, the FASB issued FSP No. 115-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP 115-2), which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

FSP 115-2 changes existing impairment guidance under FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (FAS 115) by eliminating the "ability and intent to hold" provision. In

addition, impairment is now considered to be other than temporary if an entity 1) intends to sell the security, 2) more likely than not will 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). The "probability" standard relating to the collectability of cash flows is also eliminated, and impairment is now 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 in FSP 115-2 as a "credit loss"). If an entity intends to sell an impaired debt security or more likely than not will 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. For held-to-maturity securities, the portion of the other-than-temporary impairment not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities are expanded and will now be required quarterly (see Note 2), as well as annually.

This FSP is effective for interim and annual periods ending after June 15, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this FSP adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. There was no initial adjustment to apply this FSP for the Association since no other-than-temporary impairment was previously recognized by the Association.

In April 2009, the FASB issued FSP No. 107-1 and Accounting Principles Board (APB) No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This FSP requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The FSP is effective for interim periods ending after June 15, 2009 (see Note 6).

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," which sets forth general standards of accounting for

and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This Standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009 (see Note 7).

NOTE 2 — INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held-to-maturity at June 30, 2009 follows:

	June 30, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 2,834	\$ 8	\$ (2)	\$ 2,840	2.17%

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are rated AAA, as they are guaranteed by the full faith and credit of the United States government. All unrealized losses referenced above are primarily due to reduced liquidity in the securities markets stemming from general adversity in the financial markets and are not credit related.

The following table shows the fair value and gross unrealized losses for investments in a loss position by the length of time the securities have been in a continuous unrealized loss position at June 30, 2009. The continuous loss position is based on the date the impairment occurred. The Association performs periodic credit reviews, including other-than-temporary impairment analysis, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment in connection with these investments. The unrealized losses on these investments resulted primarily from reduced liquidity in the securities markets stemming from general adversity in the financial markets and are not credit related. The Association has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. All securities continue to perform. Substantially all of these investments were in U. S. government securities and the Association expects that these securities would not be settled at a price less than their amortized cost.

	June 30, 2009			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ -	\$ -	\$ 1,008	\$ (2)

A summary of the expected maturity, amortized cost and estimated fair value of investment securities at June 30, 2009 follows:

	June 30, 2009		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-0%
After one year through five years	-	-	-
After five years through ten years	1,008	1,006	1.81
After ten years	1,826	1,834	2.36
Total	\$ 2,834	\$ 2,840	2.16%

NOTE 3 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the six months ended June 30,	
	2009	2008
Balance at beginning of period	\$ 8,051	\$ 4,978
Provision for (reversal of) loan losses	4,000	525
Charge-offs	(1,651)	(324)
Recoveries	420	5
Balance at end of period	\$ 10,820	\$ 5,184

The following table presents information concerning impaired loans as of June 30,

	2009	2008
Impaired loans with related allowance	\$ 10,247	\$ 819
Impaired loans with no related allowance	12,583	10,474
Total impaired loans	\$ 22,830	\$ 11,293
Allowance on impaired loans	\$ 4,120	\$ 248

The following table summarizes impaired loan information for the six months ended June 30,

	2009	2008
Average impaired loans	\$ 15,585	\$ 1,600
Interest income recognized on impaired loans	47	20

NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2009	2008
Pension	\$ 533	\$ 109
401(k)	80	72
Other postretirement benefits	43	40
Total	\$ 656	\$ 221

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

	Actual YTD Through 6/30/09	Projected Contributions For Remainder of 2009	Projected Total Contributions 2009
Pension	\$ -	\$ -	\$ -
Other postretirement benefits	22	30	52
Total	\$ 22	\$ 30	\$ 52

Actuarial calculations as of the last plan measurement date (December 31, 2008) projected no contributions to the pension plan for 2009. However, market conditions could impact discount rates and return on plan assets which could make additional contributions necessary before the next plan measurement date of December 31, 2009.

Further details regarding employee benefit plans are contained in the 2008 Annual Report to Shareholders.

NOTE 5 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities primarily consist of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

SFAS No. 157 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.

SFAS No. 157 establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at June 30, 2009 consist of assets held in trust funds related to deferred compensation plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis at June 30, 2009.

Level 3

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

Level 3 assets at June 30, 2009 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under SFAS No. 114. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Other property owned is classified as a level 3 asset at

June 30, 2009. The fair value for other property owned is based upon the collateral less estimated costs to sell. Level 3 liabilities at June 30, 2009 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at June 30, 2009 for each of the fair value hierarchy levels:

June 30, 2009				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 1,284	\$ —	\$ —	\$ 1,284
Total Assets	\$ 1,284	\$ —	\$ —	\$ 1,284
Liabilities:				
Standby letters of credit	\$ —	\$ —	\$ 279	\$ 279
Total Liabilities	\$ —	\$ —	\$ 279	\$ 279

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 191
Total gains or (losses) realized/unrealized:	
Included in earnings	—
Included in other comprehensive loss	—
Purchases, sales, issuances and settlements, net	88
Transfers in and/or out of level 3	—
Balance at June 30, 2009	\$ 279

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

Assets and liabilities measured at fair value on a non-recurring basis at June 30, 2009 for each of the fair value hierarchy values are summarized below:

June 30, 2009					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ —	\$ —	\$ 6,127	\$ 6,127	\$ (4,827)
Other property owned	\$ —	\$ —	\$ 1,319	\$ 1,319	\$ (87)

NOTE 6 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association’s financial instruments at June 30, 2009.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association’s financial instruments are as follows:

	June 30, 2009	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	\$ 792	\$ 792
Loans, net of allowance	\$ 567,711	\$ 576,769
Investment securities	\$ 2,834	\$ 2,840
Assets held in trust funds	\$ 1,284	\$ 1,284
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	\$ 475,477	\$ 481,482

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

- A. **Cash:** The carrying value is a reasonable estimate of fair value.
- B. **Loans:** Because no active market exists for the Association’s loans, fair value is estimated by discounting the expected future cash flows using the Association’s current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Bank’s loan rates, as well as management estimates, 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 based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

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

The carrying value of accrued interest approximates its fair value.

- C. **Investment Securities:** Fair value is based upon quoted market price.
- D. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** Estimating the fair value of the Association’s investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 1.73 percent of the issued stock of the Bank as of June 30, 2009 net of any reciprocal investment. As of that date, the Bank’s assets totaled \$30.0 billion and shareholders’ equity totaled \$1.5 billion. The Bank’s earnings were \$116 million during the first six months of 2009.
- E. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association’s loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association’s interest margin are used to fund operating expenses and capital expenditures.
- F. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.
- G. **Assets Held in Trust Funds:** See Note 5 for discussion of estimation of fair value for this instrument.

NOTE 7 – SUBSEQUENT EVENT

The Association has evaluated subsequent events through July 28, 2009, which is the date the financial statements were available to be issued.