

# **FIRST QUARTER 2010**

## **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.....	5
Consolidated Statements of Income.....	6
Consolidated Statements of Changes in Members' Equity.....	7
Notes to the Consolidated Financial Statements.....	8

## **CERTIFICATION**

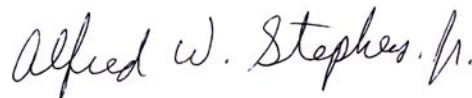
The undersigned certify that we have reviewed the March 31, 2010 quarterly report of Farm Credit of the Virginias, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



David E. Lawrence  
Chief Executive Officer



David G. Sauer  
Chief Financial Officer



Alfred W. Stephens, Jr.  
Chairman of the Board

May 7, 2010

# Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2010. 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 March 31, 2010, 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 March 31, 2010



David E. Lawrence  
Chief Executive Officer



David G. Sauer  
Chief Financial Officer

May 7, 2010

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

*(dollars in thousands)*

The following commentary reviews the consolidated financial condition and results of operations of Farm Credit of the Virginias, ACA (Association) for the period ended March 31, 2010. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2009 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 including livestock, timber, poultry and field crops. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat impacts the level of dependency on a given commodity.

As of March 31, 2010, the gross loan volume of the Association was \$1,422,992. This was a decrease of \$1,182 or less than 1.00 percent as compared to \$1,424,174 at December 31, 2009. Net loans outstanding at March 31, 2010, were \$1,412,054 as compared to \$1,413,444 at December 31, 2009. Net loans accounted for 94.35 percent of total assets as of March 31, 2010. Loan volume decreased mainly due to less demand for loans due to the continued slow down in the real estate market and general economy.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans decreased from \$33,875 at December 31, 2009 to \$31,136 at March 31, 2010. The decrease was primarily the result of fewer loans being downgraded to nonaccrual status and the Association receiving payments to pay down or payoff some of the nonaccrual loans.

Other property owned showed a decrease of \$2,039 at March 31, 2010 compared to December 31, 2009. The decrease was the result of two of the acquired properties

being sold during the period. No new properties were acquired during the quarter.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio. Factors considered in determining the allowance for loan losses were generally based on recent historical charge-off experience adjusted for relevant environmental factors. The allowance for loan losses at March 31, 2010, was \$10,938. This was an increase of \$208 compared to the allowance amount at December 31, 2009.

## **RESULTS OF OPERATIONS**

### ***For the three months ended March 31, 2010***

Net income for the three months ended March 31, 2010, totaled \$10,463 as compared to \$3,490 for the same period in 2009. This was an increase of \$6,973 or 199.80 percent. The large increase in net income was primarily due to a lower provision for loan losses and a refund from the Farm Credit System Insurance Corporation (Insurance Corporation).

Net interest income increased \$558 or 6.73 percent for the three months ended March 31, 2010, as compared to the same period in 2009. The increase in net interest income was primarily due to higher margins on loans.

The provision for loan losses decreased \$3,025 for the three months ended March 31, 2010, as compared to the same period in 2009. The provision was less this quarter, compared to the same period last year, due to the loan credit quality stabilizing.

Noninterest income for the three months ended March 31, 2010 totaled \$7,520 as compared to \$3,870 for the same period of 2009. This was an increase of \$3,650 or 94.32 percent. The increase was primarily due to an increase in equity in earnings of the Bank as part of the capitalized participation pool program, gain on sales of acquired properties, and a refund of insurance premium from the Insurance Corporation.

The refund from the Insurance Corporation included \$1,583 in insurance fund premiums and \$1,060 in stock investment in the Farm Credit System Financial Assistance Corporation established in the late 1980s. The stock investment was expensed at the time the stock was purchased in 1988.

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Noninterest expenses for the three months ended March 31, 2010 totaled \$5,703. This was an increase of \$259 or 4.76 percent compared to the same period of 2009. The increase was mainly due to an increase in employees' salaries and benefits offset in part by the decrease in the insurance premium charged to the associations in the Farm Credit System.

### **FUNDING SOURCES**

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds 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 March 31, 2010 was \$1,244,624 as compared to \$1,268,040 at December 31, 2009. The decrease during the period is primarily attributed to a decrease in loan volume.

### **CAPITAL RESOURCES**

Total members' equity at March 31, 2010 totaled \$225,299, an increase of \$10,411, as compared to \$214,888 at December 31, 2009. The increase in members' equity was primarily attributed to earnings.

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 March 31, 2010, the Association's total surplus ratio and core surplus ratio were 11.80 percent and 11.80 percent, respectively, and the permanent capital ratio was 13.10 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.

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**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](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 540-886-3435, ext. 5020, or writing David Sauer, Farm Credit of the Virginias, ACA, P.O. Box 899, Staunton, VA 24402, or accessing the website, [www.farmcreditofvirginias.com](http://www.farmcreditofvirginias.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# Farm Credit of the Virginias, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>March 31, 2010</b> <i>(unaudited)</i>	<b>December 31, 2009</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 3,181	\$ 4,001
Loans	1,422,992	1,424,174
Less: allowance for loan losses	10,938	10,730
Net loans	1,412,054	1,413,444
Loans held for sale	849	1,531
Other investments	10,703	13,554
Accrued interest receivable	10,433	8,286
Investment in other Farm Credit institutions	37,559	37,937
Premises and equipment, net	6,918	7,033
Other property owned	3,757	5,796
Due from AgFirst Farm Credit Bank	3,716	14,273
Other assets	7,478	7,750
Total assets	\$ 1,496,648	\$ 1,513,605
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,244,624	\$ 1,268,040
Accrued interest payable	4,022	4,170
Patronage refund payable	247	10,111
Other liabilities	22,456	16,396
Total liabilities	1,271,349	1,298,717
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	17,871	17,928
Retained earnings		
Allocated	78,079	78,806
Unallocated	129,345	118,150
Accumulated other comprehensive income (loss)	4	4
Total members' equity	225,299	214,888
Total liabilities and members' equity	\$ 1,496,648	\$ 1,513,605

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

Farm Credit of the Virginias, ACA

# Consolidated Statements of Income

*(unaudited)*

**For the three months  
ended March 31,**

*(dollars in thousands)*

	<b>2010</b>	<b>2009</b>
<b>Interest Income</b>		
Loans	\$ 20,875	\$ 22,943
Other	142	174
Total interest income	21,017	23,117
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	12,165	14,823
Net interest income	8,852	8,294
Provision for (reversal of allowance for) loan losses	200	3,225
Net interest income after provision for (reversal of allowance for) loan losses	8,652	5,069
<b>Noninterest Income</b>		
Loan fees	277	452
Fees for financially related services	39	42
Equity in earnings of other Farm Credit institutions	3,717	3,376
Gains (losses) on other property owned, net	588	(209)
Gains (losses) on sale of rural home loans, net	168	114
Insurance Fund refunds	2,643	—
Other noninterest income	88	95
Total noninterest income	7,520	3,870
<b>Noninterest Expense</b>		
Salaries and employee benefits	3,826	3,310
Occupancy and equipment	321	341
Insurance Fund premium	308	626
Other operating expenses	1,248	1,167
Total noninterest expense	5,703	5,444
Income before income taxes	10,469	3,495
Provision (benefit) for income taxes	6	5
Net income	\$ 10,463	\$ 3,490

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

Farm Credit of the Virginias, ACA

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

*(dollars in thousands)*

	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2008	\$ 18,430	\$ 71,860	\$ 115,444	\$ 7	\$ 205,741
Comprehensive income					
Net income			3,490		3,490
Employee benefit plans adjustments				(1)	(1)
Total comprehensive income					3,489
Capital stock/participation certificates issued/(retired), net	(131)				(131)
Patronage distribution adjustment		715	(3,015)		(2,300)
Balance at March 31, 2009	\$ 18,299	\$ 72,575	\$ 115,919	\$ 6	\$ 206,799
Balance at December 31, 2009	\$ 17,928	\$ 78,806	\$ 118,150	\$ 4	\$ 214,888
Comprehensive income					
Net income			10,463		10,463
Capital stock/participation certificates issued/(retired), net	(57)				(57)
Patronage distribution adjustment		(727)	732		5
Balance at March 31, 2010	\$ 17,871	\$ 78,079	\$ 129,345	\$ 4	\$ 225,299

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

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*Farm Credit of the Virginias, ACA*

# Notes to the Consolidated Financial Statements

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

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

The accompanying financial statements include the accounts of Farm Credit of the Virginias, 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, 2009, are contained in the 2009 Annual Report to Shareholders. These unaudited first quarter 2010 consolidated financial statements should be read in conjunction with the 2009 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 three months ended March 31, 2010, are not necessarily indicative of the results to be expected for the year ending December 31, 2010.

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 March 31, 2010, 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 2009 Annual Report to Shareholders, in June 2009, the Financial Accounting Standards Board (FASB) issued guidance "Accounting for Transfers of Financial Assets," which amended 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 guidance) 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 that requires consolidation. The Association evaluated the impact of adoption on its loan participation agreements to ensure that participations would meet the requirements for sales treatment. The impact of adoption on January 1, 2010 was immaterial to the Association's financial condition and results of operations.

In June 2009, the FASB also issued guidance, to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity.

Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance.

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. The Association does not have any variable interest or controlling interest in a variable entity. Therefore, there was no impact of adoption of the guidance for the Association.

In January 2010, the FASB issued guidance "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 detail

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 guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 4).

## NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the three months ended March 31,	
	2010	2009
Balance at beginning of period	\$10,730	\$ 6,779
Provision for (reversal of) loan losses	200	3,225
Charge-offs	(62)	(943)
Recoveries	70	1
Balance at end of period	<u>\$10,938</u>	<u>\$ 9,062</u>

The following table presents information concerning impaired loans as of March 31,

	2010	2009
Impaired loans with related allowance	\$14,609	\$ 6,745
Impaired loans with no related allowance	16,933	32,505
Total impaired loans	<u>31,542</u>	<u>39,250</u>
Allowance on impaired loans	<u>\$ 4,667</u>	<u>\$ 3,985</u>

The following table summarizes impaired loan information for the three months ended March 31,

	2010	2009
Average impaired loans	\$ 34,164	\$ 37,818
Interest income recognized on impaired loans	179	35

## NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31,	
	2010	2009
Pension	\$ 754	\$ 781
401(k)	137	102
Other postretirement benefits	139	142
Total	<u>\$ 1,030</u>	<u>\$1,025</u>

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

	Actual YTD Through 3/31/10	Projected Contributions For Remainder of 2010	Projected Total Contributions 2010
Pension	\$ 2	\$2,554	\$ 2,556
Other Postretirement benefits	94	322	416
Total	<u>\$ 96</u>	<u>\$2,876</u>	<u>\$ 2,972</u>

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2010.

Further details regarding employee benefit plans are contained in the 2009 Annual Report to Shareholders.

## NOTE 4 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

## Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at March 31, 2010 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

## Level 2

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

## 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 March 31, 2010 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principle balance of the loan, a specific reserve is established.

Other property owned is classified as a Level 3 asset at March 31, 2010. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at March 31, 2010 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at March 31, 2010 and December 31, 2009 for each of the fair value hierarchy levels:

March 31, 2010				
	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>				
Assets held in trust funds	\$ 559	\$ -	\$ -	\$ 559
Total Assets	\$ 559	\$ -	\$ -	\$ 559

<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 195	\$ 195
Total Liabilities	\$ -	\$ -	\$ 195	\$ 195

December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>				
Assets held in trust funds	\$ 521	\$ -	\$ -	\$ 521
Total Assets	\$ 521	\$ -	\$ -	\$ 521

<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 162	\$ 162
Total Liabilities	\$ -	\$ -	\$ 162	\$ 162

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2010 and 2009. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first three months of 2010 and 2009.

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 162
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	33
Transfers in and/or out of level 3	-
Balance at March 31, 2010	\$ 195

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 223
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(29)
Transfers in and/or out of level 3	-
Balance at March 31, 2009	\$ 194

## 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 March 31, 2010 and December 31, 2009 for each of the fair value hierarchy values are summarized below:

March 31, 2010						
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)	
<b>Assets:</b>						
Impaired loans	\$ -	\$ -	\$ 9,553	\$ 9,553	\$	658
Other property owned	\$ -	\$ -	\$ -	\$ -	\$	300
<b>December 31, 2009</b>						
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)	
<b>Assets:</b>						
Impaired loans	\$ -	\$ -	\$ 15,339	\$ 15,339	\$	(6,731)
Other property owned	\$ -	\$ -	\$ 6,395	\$ 6,395	\$	(754)

## NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at March 31, 2010 and December 31, 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:

	March 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>				
Cash	\$ 3,181	\$ 3,181	\$ 4,001	\$ 4,001
Loans, net of allowance	\$ 1,412,054	\$ 1,428,592	\$ 1,413,444	\$ 1,416,499
Tobacco Buyout SIIC	\$ 10,703	\$ 11,531	\$ 13,554	\$ 14,396
Assets held in trust funds	\$ 559	\$ 559	\$ 521	\$ 521
<b>Financial liabilities:</b>				
Notes payable to AgFirst Farm Credit Bank	\$ 1,244,624	\$ 1,262,663	\$ 1,268,040	\$ 1,286,809

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

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

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

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

The carrying value of accrued interest approximates its fair value.

- C. **Investment in AgFirst Farm Credit Bank:** Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 9.90 percent of the issued stock of the Bank as of March 31, 2010 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.1 billion and shareholders' equity totaled \$1.7 billion. The Bank's earnings were \$117 million during the first three months of 2010.
- D. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

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- E. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.
  - F. **Tobacco Buyout SIIC:** Fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.
  - G. **Assets Held in Trust Funds:** See Note 4 for discussion of estimation of fair value for this instrument.

**NOTE 6 – SUBSEQUENT EVENT**

The Association has evaluated subsequent events and has determined there are none requiring disclosure through May 7, 2010, which is the date the financial statements were issued.