

# **SECOND QUARTER 2009**

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## **CERTIFICATION**

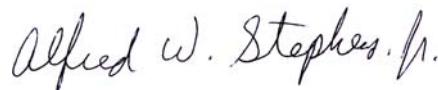
The undersigned certify that we have reviewed the June 30, 2009 quarterly report of Farm Credit of the Virginias, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and 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

July 29, 2009

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*Farm Credit of the Virginias, 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 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 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



David E. Lawrence  
Chief Executive Officer



David G. Sauer  
Chief Financial Officer

July 29, 2009

# 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 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 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 June 30, 2009, the gross loan volume of the Association was \$1,409,818. This was a decrease of \$57,651 or 3.93 percent as compared to \$1,467,469 at December 31, 2008. Net loans outstanding at June 30, 2009, were \$1,400,739 as compared to \$1,460,690 at December 31, 2008. Net loans accounted for 93.59 percent of total assets as of June 30, 2009. The decrease in loan volume was due to selling loans to AgFirst Farm Credit Bank (the Bank) as part of the capitalized participation pool (CPP) program. Under this program, loans are sold to the Bank as a way to manage capital. The Association did experience a decrease in loan demand for the first half of the year compared to the same period last year. The decrease in demand was mainly due to the slowdown 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 increased from \$37,181 at December 31, 2008, to \$37,821 at June 30, 2009. The increase was the result of several loans being downgraded to nonaccrual status.

Other property owned showed an increase of \$2,325 at June 30, 2009 compared to December 31, 2008. The increase was the result of a couple of loans going through the foreclosure process and the Association acquiring the property.

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 June 30, 2009, was \$9,079. This was an increase of \$2,300 compared to the balance at December 31, 2008. The allowance for loan losses was increased due to the weakening of the general economy and some credit deterioration. The agricultural sector has been impacted by the volatility in commodity prices and high input costs. Industries that the Association has exposure to that are showing some signs of stress include dairy, ethanol, timber, and housing.

## **RESULTS OF OPERATIONS**

### ***For the three months ended June 30, 2009***

Net income for the three months ended June 30, 2009, totaled \$3,714 as compared to \$6,962 for the same period in 2008, a decrease of \$3,248 or 46.65 percent. The decrease in net income was primarily due to an increase in the provision for loan losses.

Net interest income decreased \$916, or 9.92 percent, for the three months ended June 30, 2009, as compared to the same period in 2008. The decrease in net interest income was primarily due to the decrease in loan volume.

Noninterest income for the three months ended June 30, 2009, totaled \$4,210 as compared to \$3,006 for the same period of 2008, an increase of \$1,204 or 40.05 percent. The increase was primarily due to an increase in equity in earnings of the Bank as part of the capitalized participation pool program and an increase in loan fees.

Noninterest expenses for the three months ended June 30, 2009 totaled \$5,606. This was an increase of \$838, or 17.58 percent, compared to the same period of 2008. The increase was mainly due to an increase in employees' salaries and benefits.

### ***For the six months ended June 30, 2008***

Net income for the six months ended June 30, 2009 totaled \$7,204, as compared to \$11,799 for the same period in 2008, a decrease of \$4,595 or 38.94 percent. The decrease was mainly due to the increase in provision for loan loss. Net interest income for the first six months decreased \$1,876 compared to the same period in 2008. The decrease in net interest income was primarily due to a decrease in loan volume compared to last year. Most of the decrease in loan volume was due to selling loans into the Bank's capitalized participation pool

program. Earning of the capitalized participation pool program will flow back to the Association as equity earnings from the Bank.

Provision for loan losses for the six months ended June 30, 2009, totaled \$6,425 compared to \$2,743 for the same period last year. The increase in the provision for loan losses was a result of maintaining the allowance for loan losses at an adequate level taking into consideration the current weakness in the economy and higher credit risk in the portfolio.

Noninterest income for the six months ended June 30, 2009, totaled \$8,080, as compared to \$6,054 for the same period of 2008, an increase of \$2,026. The increase was primarily due to an increase in equity in earnings of the Bank as a result of the capitalized participation pool program and increase in loan fees.

Noninterest expenses for the six months ended June 30, 2009 totaled \$11,050. This was an increase of \$1,074 or 10.77 percent compared to the same period of 2008. The increase was mainly due to an increase in employees' salaries and benefits.

The provision for income taxes for the six months ended June 30, 2009, total \$9 as compared to \$20 for the same period in 2008.

## 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 June 30, 2009, was \$1,267,546 as compared to \$1,318,784 at December 31, 2008. The decrease during the period is primarily attributed to a decrease in loan volume.

## CAPITAL RESOURCES

Total members' equity at June 30, 2009 totaled \$210,467, an increase of \$4,726, as compared to \$205,741 at December 31, 2008. 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 June 30, 2009, the Association's total surplus ratio and core surplus ratio were 10.81 percent and 10.81 percent, respectively, and the permanent capital ratio was 12.15 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](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>June 30, 2009</b>	<b>December 31, 2008</b>
	<i>(unaudited)</i>	<i>(audited)</i>
<b>Assets</b>		
Cash	\$ 3,417	\$ 3,677
Loans	1,409,818	1,467,469
Less: allowance for loan losses	9,079	6,779
Net loans	1,400,739	1,460,690
Loans held for sale	4,120	501
Other investments	13,205	15,850
Accrued interest receivable	10,996	10,076
Investment in other Farm Credit institutions	40,379	37,545
Premises and equipment, net	7,278	7,448
Other property owned	4,832	2,507
Due from AgFirst Farm Credit Bank	6,942	11,611
Other assets	4,834	6,201
Total assets	\$ 1,496,742	\$ 1,556,106
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,267,546	\$ 1,318,784
Accrued interest payable	4,393	5,347
Patronage refund payable	85	10,649
Other liabilities	14,251	15,585
Total liabilities	1,286,275	1,350,365
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	18,253	18,430
Retained earnings		
Allocated	72,575	71,860
Unallocated	119,633	115,444
Accumulated other comprehensive income (loss)	6	7
Total members' equity	210,467	205,741
Total liabilities and members' equity	\$ 1,496,742	\$ 1,556,106

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

# Farm Credit of the Virginias, 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
<b>Interest Income</b>				
Loans	\$ 21,524	\$ 27,654	\$ 44,467	\$ 55,642
Other	175	204	349	393
Total interest income	21,699	27,858	44,816	56,035
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	13,385	18,628	28,208	37,551
Net interest income	8,314	9,230	16,608	18,484
Provision for (reversal of allowance for) loan losses	3,200	493	6,425	2,743
Net interest income after provision for (reversal of allowance for) loan losses	5,114	8,737	10,183	15,741
<b>Noninterest Income</b>				
Loan fees	537	314	989	616
Fees for financially related services	12	12	54	22
Equity in earnings of other Farm Credit institutions	3,603	2,687	6,979	5,220
Gains (losses) on other property owned, net	(196)	(184)	(405)	(189)
Gains (losses) on sale of rural home loans, net	176	132	290	239
Other noninterest income	78	45	173	146
Total noninterest income	4,210	3,006	8,080	6,054
<b>Noninterest Expense</b>				
Salaries and employee benefits	3,518	2,730	6,828	5,623
Occupancy and equipment	370	334	711	672
Insurance Fund premium	621	589	1,247	1,150
Other operating expenses	1,097	1,115	2,264	2,531
Total noninterest expense	5,606	4,768	11,050	9,976
Income before income taxes	3,718	6,975	7,213	11,819
Provision (benefit) for income taxes	4	13	9	20
Net income	\$ 3,714	\$ 6,962	\$ 7,204	\$ 11,799

*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 Comprehensiv Income	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 18,517	\$ 63,629	\$ 109,502	\$ 8	\$ 191,656
Comprehensive income					
Net income			11,799		11,799
Employee benefit plans adjustments			(2)		(2)
Total comprehensive income					11,797
Capital stock/participation certificates issued/(retired), net	112				112
Patronage distribution adjustment		(847)	469		(378)
Balance at June 30, 2008	\$ 18,629	\$ 62,782	\$ 121,768	\$ 8	\$ 203,187
Balance at December 31, 2008	\$ 18,430	\$ 71,860	\$ 115,444	\$ 7	\$ 205,741
Comprehensive income					
Net income			7,204		7,204
Employee benefit plans adjustments				(1)	(1)
Total comprehensive income					7,203
Capital stock/participation certificates issued/(retired), net	(177)				(177)
Patronage distribution adjustment		715	(3,015)		(2,300)
Balance at June 30, 2009	\$ 18,253	\$ 72,575	\$ 119,633	\$ 6	\$ 210,467

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

*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, 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 4), 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. 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 5).

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 6).

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

An analysis of the allowance for loan losses follows:

	<b>For the six months ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Balance at beginning of period	\$ 6,779	\$ 3,694
Provision for (reversal of) loan losses	6,425	2,743
Charge-offs	(4,128)	(1,847)
Recoveries	3	5
Balance at end of period	<u>\$ 9,079</u>	<u>\$ 4,595</u>

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

	<b>2009</b>	<b>2008</b>
Impaired loans with related allowance	\$ 10,220	\$ 2,394
Impaired loans with no related allowance	<u>34,778</u>	<u>6,800</u>
Total impaired loans	<u>\$ 44,998</u>	<u>\$ 9,194</u>
Allowance on impaired loans	<u>\$ 4,745</u>	<u>\$ 959</u>

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

	<u>2009</u>	<u>2008</u>
Average impaired loans	\$ 38,050	\$ 9,311
Interest income recognized on impaired loans	144	108

### NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	<u>For the six months ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Pension	\$ 1,562	\$ 308
401(k)	172	159
Other postretirement benefits	284	259
Total	<u>\$ 2,018</u>	<u>\$ 726</u>

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

	<u>Actual YTD Through 6/30/09</u>	<u>Projected Contributions For Remainder of 2009</u>	<u>Projected Total Contributions 2009</u>
Pension	\$ 5	\$ 4	\$ 9
Other postretirement benefits	187	230	417
Total	<u>\$ 192</u>	<u>\$ 234</u>	<u>\$ 426</u>

Actuarial calculations as of the last plan measurement date (December 31, 2008) projected contributions of \$9 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 4 – 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 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 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 principle 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
<b>Assets:</b>				
Assets held in trust funds	\$ 468	\$ -	\$ -	\$ 468
Total Assets	\$ 468	\$ -	\$ -	\$ 468
<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 203	\$ 203
Total Liabilities	\$ -	\$ -	\$ 203	\$ 203

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	\$ 223
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(20)
Transfers in and/or out of level 3	-
Balance at June 30, 2009	\$ 203

### 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				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 5,475	\$ 5,475	\$ (6,200)
Other property owned	\$ -	\$ -	\$ 4,512	\$ 4,512	\$ (251)

### 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 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
<b>Financial assets:</b>		
Cash	\$ 3,417	\$ 3,417
Loans, net of allowance	\$ 1,400,739	\$ 1,423,998
Tobacco Buyout SIC	\$ 13,205	\$ 13,766
Assets held in trust funds	\$ 468	\$ 468
<b>Financial liabilities:</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,267,546	\$ 1,288,562

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 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 9.18 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.

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.

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 through July 29, 2009, which is the date the financial statements were available to be issued.