

THIRD QUARTER 2009

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CERTIFICATION

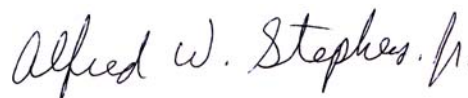
The undersigned certify that we have reviewed the September 30, 2009 quarterly report of Farm Credit of the Virginias, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements,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

October 22, 2009

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 September 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 September 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 September 30, 2009



David E. Lawrence
Chief Executive Officer



David G. Sauer
Chief Financial Officer

October 22, 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 September 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 September 30, 2009, the gross loan volume of the Association was \$1,424,829. This was a decrease of \$42,640 or 2.91 percent as compared to \$1,467,469 at December 31, 2008. Net loans outstanding at September 30, 2009, were \$1,413,875 as compared to \$1,460,690 at December 31, 2008. Net loans accounted for 93.55 percent of total assets as of September 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 has experienced a decline in loan demand this year due to the weakness 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 \$42,777 at September 30, 2009. The increase was primarily driven by continued deterioration in the housing and real estate market. As the economy has slowed, more customers are experiencing economic difficulties. This resulted in several loans being downgraded to nonaccrual status.

Other property owned showed an increase of \$3,468 at September 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 September 30, 2009, was \$10,954. This was an increase of \$4,175 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 September 30, 2009

Net income for the three months ended September 30, 2009, totaled \$5,276 as compared to \$7,503 for the same period in 2008, a decrease of \$2,227 or 29.68 percent. The decrease in net income was primarily due to an increase in the provision for loan losses.

Net interest income decreased \$1,147, or 11.89 percent, for the three months ended September 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 September 30, 2009, totaled \$4,301 as compared to \$3,277 for the same period of 2008, an increase of \$1,024 or 31.25 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 September 30, 2009 totaled \$5,625. This was an increase of \$900, or 19.05 percent, compared to the same period of 2008. The increase was mainly due to an increase in employees' salaries and benefits.

For the nine months ended September 30, 2009

Net income for the nine months ended September 30, 2009 totaled \$12,480, as compared to \$19,302 for the same period in 2008, a decrease of \$6,822 or 35.34 percent. The decrease was mainly due to the increase in provision for loan losses.

Net interest income for the first nine months decreased \$3,023 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 nine months ended September 30, 2009, totaled \$8,325 compared to \$3,403 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 nine months ended September 30, 2009, totaled \$12,381, as compared to \$9,331 for the same period of 2008, an increase of \$3,050. 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 an increase in loan fees.

Noninterest expenses for the nine months ended September 30, 2009 totaled \$16,675. This was an increase of \$1,974 or 13.43 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 nine months ended September 30, 2009, total \$9 as compared to \$56 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 September 30, 2009, was \$1,276,265 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 September 30, 2009 totaled \$215,571, an increase of \$9,830, 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 September 30, 2009, the Association's total surplus ratio and core surplus ratio were 10.82 percent and 10.82 percent, respectively, and the permanent capital ratio was 12.14 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 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. 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>	September 30, 2009 <i>(unaudited)</i>	December 31, 2008 <i>(audited)</i>
Assets		
Cash	\$ 1,653	\$ 3,677
Loans	1,424,829	1,467,469
Less: allowance for loan losses	10,954	6,779
Net loans	1,413,875	1,460,690
Loans held for sale	2,626	501
Other investments	13,380	15,850
Accrued interest receivable	12,084	10,076
Investment in other Farm Credit institutions	39,869	37,545
Premises and equipment, net	7,136	7,448
Other property owned	5,975	2,507
Due from AgFirst Farm Credit Bank	10,622	11,611
Other assets	4,113	6,201
Total assets	\$ 1,511,333	\$ 1,556,106
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,276,265	\$ 1,318,784
Accrued interest payable	4,274	5,347
Patronage refund payable	63	10,649
Other liabilities	15,160	15,585
Total liabilities	1,295,762	1,350,365
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	18,080	18,430
Retained earnings		
Allocated	72,575	71,860
Unallocated	124,909	115,444
Accumulated other comprehensive income (loss)	7	7
Total members' equity	215,571	205,741
Total liabilities and members' equity	\$ 1,511,333	\$ 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 September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Interest Income				
Loans	\$ 21,279	\$ 27,755	\$ 65,746	\$ 83,397
Other	175	192	524	585
Total interest income	21,454	27,947	66,270	83,982
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	12,954	18,300	41,162	55,851
Net interest income	8,500	9,647	25,108	28,131
Provision for (reversal of allowance for) loan losses	1,900	660	8,325	3,403
Net interest income after provision for (reversal of allowance for) loan losses	6,600	8,987	16,783	24,728
Noninterest Income				
Loan fees	482	268	1,471	884
Fees for financially related services	193	14	247	36
Equity in earnings of other Farm Credit institutions	3,680	2,913	10,659	8,133
Gains (losses) on other property owned, net	(259)	(18)	(664)	(207)
Gains (losses) on sale of rural home loans, net	144	107	434	346
Other noninterest income	61	(7)	234	139
Total noninterest income	4,301	3,277	12,381	9,331
Noninterest Expense				
Salaries and employee benefits	3,585	2,666	10,413	8,289
Occupancy and equipment	309	312	1,020	984
Insurance Fund premium	635	525	1,882	1,675
Other operating expenses	1,096	1,222	3,360	3,753
Total noninterest expense	5,625	4,725	16,675	14,701
Income before income taxes	5,276	7,539	12,489	19,358
Provision (benefit) for income taxes	—	36	9	56
Net income	\$ 5,276	\$ 7,503	\$ 12,480	\$ 19,302

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	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 18,517	\$ 63,629	\$ 109,502	\$ 8	\$ 191,656
Comprehensive income					
Net income			19,302		19,302
Employee benefit plans adjustments			(2)		(2)
Total comprehensive income					19,300
Capital stock/participation certificates issued/(retired), net	36				36
Patronage distribution adjustment		(847)	468		(379)
Balance at September 30, 2008	\$ 18,553	\$ 62,782	\$ 129,270	\$ 8	\$ 210,613
Balance at December 31, 2008	\$ 18,430	\$ 71,860	\$ 115,444	\$ 7	\$ 205,741
Comprehensive income					
Net income			12,480		12,480
Capital stock/participation certificates issued/(retired), net	(350)				(350)
Patronage distribution adjustment		715	(3,015)		(2,300)
Balance at September 30, 2009	\$ 18,080	\$ 72,575	\$ 124,909	\$ 7	\$ 215,571

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 third 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 nine months ended September 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 September 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 accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in 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 Financial Accounting Standards Board (FASB) issued guidance, "Interim Disclosures about Fair Value of Financial Instruments." This guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial

statements. The Association adopted this guidance effective June 30, 2009 (see Note 5).

In May 2009, the FASB issued guidance, "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. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be included in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not included 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 guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was adopted by the Association effective June 30, 2009 (see Note 7).

In June 2009, the FASB issued guidance, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This Codification became the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. This guidance was adopted by the Association effective July 1, 2009 and had no impact on the Association's financial condition or results of operations.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,	
	2009	2008
Balance at beginning of period	\$ 6,779	\$ 3,694
Provision for (reversal of) loan losses	8,325	3,403
Charge-offs	(4,155)	(1,930)
Recoveries	5	7
Balance at end of period	<u>\$10,954</u>	<u>\$ 5,174</u>

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

	<u>2009</u>	<u>2008</u>
Impaired loans with related allowance	\$11,576	\$ 5,597
Impaired loans with no related allowance	32,077	5,955
Total impaired loans	<u>43,653</u>	<u>11,552</u>
Allowance on impaired loans	<u>\$ 5,342</u>	<u>\$ 1,698</u>

The following table summarizes impaired loan information for the nine months ended September 30,

	<u>2009</u>	<u>2008</u>
Average impaired loans	\$ 39,108	\$ 9,366
Interest income recognized on impaired loans	328	402

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	<u>For the nine months ended September 30,</u>	
	<u>2009</u>	<u>2008</u>
Pension	\$ 2,344	\$ 461
401(k)	242	229
Other postretirement benefits	426	388
Total	<u>\$ 3,012</u>	<u>\$1,078</u>

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

	<u>Actual YTD Through 9/30/09</u>	<u>Projected Contributions For Remainder of 2009</u>	<u>Projected Total Contributions 2009</u>
Pension	\$ 7	\$ 2	\$ 9
Other postretirement benefits	279	138	417
Total	<u>\$ 286</u>	<u>\$ 140</u>	<u>\$ 426</u>

As of September 30, 2009, no contributions have been made for 2009 by the Association to the qualified District pension plan in which the Association participates. Actuarial calculations as of the last plan measurement date (December 31, 2008) projected total contributions of \$52.0 million to the qualified District pension plan for all participating institutions for 2009. The funding policy for this plan is to fund the accumulated benefit obligation (ABO) service cost plus the seven year amortization of the unfunded ABO using the discount rate determined as of December 31st of the preceding year. This aggregate contribution will be allocated to the participating District institutions, including the Association, based upon each institution's pro rata share of ABO service cost. 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 FASB guidance on fair value measurements. This guidance 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.

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 September 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 September 30, 2009 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 September 30, 2009. The fair value for other property owned is based upon the collateral less estimated costs to sell. Level 3 liabilities at September 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 September 30, 2009 for each of the fair value hierarchy levels:

	September 30, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 500	\$ -	\$ -	\$ 500
Total Assets	\$ 500	\$ -	\$ -	\$ 500
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 198	\$ 198
Total Liabilities	\$ -	\$ -	\$ 198	\$ 198

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
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(25)
Transfers in and/or out of level 3	-
Balance at September 30, 2009	\$ 198

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 September 30, 2009 for each of the fair value hierarchy values are summarized below:

	September 30, 2009				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 6,234	\$ 6,234	\$ (6,508)
Other property owned	\$ -	\$ -	\$ 6,556	\$ 6,556	\$ (389)

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 September 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:

	September 30, 2009	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	\$ 1,653	\$ 1,653
Loans, net of allowance	\$ 1,413,875	\$ 1,442,558
Tobacco Buyout SIIC	\$ 13,380	\$ 14,342
Assets held in trust funds	\$ 500	\$ 500
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	\$ 1,276,265	\$ 1,302,367

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 10.45 percent of the issued stock of the Bank as of September 30, 2009 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.08 billion and shareholders' equity totaled \$1.60 billion.

The Bank's earnings were \$194.0 million during the first nine 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 – SIGNIFICANT EVENT

In late September 2009, the Board of Directors of the Association and AgChoice Farm Credit, ACA signed a letter of intent to merge. The letter of intent to merge allows both Associations to explore the benefits of a merger. If both Boards of the Associations agree to proceed with a merger, a Plan of Merger will be prepared and submitted to AgFirst Farm Credit Bank and the Farm Credit Administration for their approval. Upon their approval, the Plan of Merger will be submitted to shareholders of both Associations for their review and approval. AgChoice Farm Credit, ACA has approximately \$1.4 billion in assets and serves 52 counties in Pennsylvania and 4 counties in West Virginia.

NOTE 7 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through November 3, 2009, which is the date the financial statements were available to be issued.