
Farm Credit of Central Florida, ACA

FIRST QUARTER 2010

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CERTIFICATION

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



Reginald T. Holt
Chief Executive Officer



D. Scott Fontenot
Chief Financial Officer



Lewis S. Stidham
Chairman of the Audit committee

May 7, 2010

Farm Credit of Central Florida, ACA

Report on Internal Control Over Financial Reporting

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



Reginald T. Holt
Chief Executive Officer



D. Scott Fontenot
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 financial condition and results of operations of Farm Credit of Central Florida, ACA, (Association) for the period ended March 31, 2010. These comments should be read in conjunction with the accompanying financial statements, notes to the 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 in our region, including horticulture, fruits/vegetables, citrus, and cattle. 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, reduces the level of dependency on a given commodity.

March 31, 2010 compared to December 31, 2009

Loan volume of the Association as of March 31, 2010, was \$357,601, a decrease of \$13,174 as compared to \$370,775 at December 31, 2009. Net loans outstanding at March 31, 2010, were \$349,617 as compared to \$364,816 at December 31, 2009. The Association has investment securities that are classified as held to maturity in the amount of \$50,019 at March 31, 2010, as compared to \$49,648 at December 31, 2009. Net loans and investment securities accounted for 93.58 percent of total assets at March 31, 2010, as compared to 92.97 percent of total assets at December 31, 2009.

The Association has been able to positively grow its total servicing portfolio to \$1,036,979 as compared to \$1,028,899 at December 31, 2009 by increased lending activity to existing corporate and commercial customers. The decrease in net loan volume is primarily due to seasonal lending. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between September and December and declines between January and June as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops. The result

of this normal seasonal lending activity causes net loan volume to decrease on revolving credit lines. Due to internal hold limits on individual credits and/or commodities and capital and growth management initiatives, more loan volume has been sold through loan participations to various AgFirst participation pools resulting in participation sold volume to be increased.

ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. While credit administration remains satisfactory, portfolio credit quality has weakened as compared to prior periods, primarily in those loans secured by real estate and in the nursery industry. Acceptable and OAEM credit quality as a percentage of total loan portfolio was 86.22% as of March 31, 2010 compared to 88.24% at December 31, 2009 and 93.40% at March 31, 2009. Nonaccrual loan volume was \$34,642 at March 31, 2010, compared to \$31,860 at December 31, 2009 and \$19,773 at March 31, 2009, an increase of \$2,782 and \$14,869, respectively. Majority of the increase is associated with several loans in the nursery industry, several agricultural real estate loans and residential lot loans.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2010, was \$7,984 compared to \$5,959 at December 31, 2009 and \$6,538 at March 31, 2009, and is considered by management to be adequate to cover possible losses. The allowance for loan loss is broken down between specific reserves assigned to an individual loan and general reserves which are available for the possible losses within the entire portfolio. The current allowance for loan loss at March 31, 2010 contains \$5,320 in specific reserves and \$2,664 in general reserves. The following outlines the allowance for loan loss activity as of March 31, 2010.

	Q1	YTD
Allowance for Loan Losses Activity:	2010	2010
Balance at beginning of period	\$ 5,959	\$ 5,959
Charge-offs	(130)	(130)
Recoveries		
Provisions/(Reversals)	2,155	2,155
Balance at end of period	\$ 7,984	\$ 7,984

The increase in allowance for loan loss was a direct result of the increases in nonaccrual assets and the overall decline in credit quality of other performing assets. This increase in allowance was funded through an increase in the provision for loan losses, which was the primary cause for the significant decline in final net income.

RESULTS OF OPERATIONS

For the three months ended March 31, 2010

Net income for the three months ended March 31, 2010, totaled \$447, as compared to \$390 for the same period in 2009. The increase of \$57 for the period is associated directly with the increase of non-interest income through Equity in Earnings from Other Farm Credit Institutions and the Insurance Fund Refund. In addition, continued decline in credit quality caused increased provisions for loan loss as compared to same period prior year.

Net interest income decreased \$370 for the three months ended March 31, 2010, as compared to the same period in 2009. The primary reason for the decrease is the increase in non-performing assets coupled with the reduced net loan assets as compared to the same time last year. Net interest income for the three months ending March 31, 2010 are shown in the following table:

Net Interest Income	For the three months ended March 31			
	2010	2009	\$ change	% change
Investment Interest Income	\$ 234	\$ 290	\$ (56)	(19.31)%
Loan Interest Income	4,259	5,619	(1,360)	(24.20)
Total Interest Income	4,493	5,909	(1,416)	(23.96)
Total Interest Expense	2,256	3,302	(1,046)	(31.68)
Net Interest Income	\$ 2,237	\$ 2,607	\$ (307)	(14.19)%

Provisions for loan losses for the quarter totaled \$2,155, as compared to \$1,890 for the same period last year. The increase in provisions was necessary to fund the increase required in the Association's allowance for loan losses which is the result of increased non-performing assets and declining credit quality. Provisions for loan losses for the three months ending March 31, 2010 are shown in the following table:

Provisions for Loan Losses	For the three months ended March 31,			
	2010	2009	\$ change	% change
Provisions	\$ 2,155	\$ 1,890	\$ 265	14.02%
Reversals	-	-	-	-
Total Provisions/(Reversals)	\$ 2,155	\$ 1,890	\$ 265	14.02%

Noninterest income for the three months ended March 31, 2010, totaled \$2,302, as compared to \$1,680 for the same period of 2009, a increase of \$622. The increase is primarily the result of the increase in Equity in Earnings of other Farm Credit Institutions and the refund received from the Insurance Fund. The Association's patronage earnings from the Capitalized Participation Pool (CPP) with AgFirst generated \$605 for the three months ending March 31, 2009 compared to zero for the three months ending March 31, 2009. During the first quarter of 2010, the Association recorded \$428 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. Noninterest income for the three months ending March 31, 2010 are shown in the following table:

Noninterest Income	For the three months ended March 31			
	2010	2009	\$ change	% change
Loan fees	\$ 149	\$ 273	\$ (124)	-45.42%
Fees for financially related services	25	164	(139)	-84.76
Equity in earnings from other Farm Credit Institutions	1,747	1,140	607	53.25
Gains (losses) on other property owned, net	(145)	-	145	100.00
Gains (losses) on sales of rural home loans, net	39	47	(8)	-17.02
Insurance Fund refund	428	-	428	100.00
Other noninterest income	59	56	3	5.36
Total noninterest income	\$ 2,302	\$ 1,680	\$ 622	37.02%

Noninterest expense for the three months ended March 31, 2010, decreased \$70 compared to the same period of 2009. The primary reasons for the decrease was the decrease in Insurance Fund premiums. The decrease in Insurance Fund premiums is a result of decrease premium costs and decreased loan asset volumes. Noninterest expense for the three months ending March 31, 2010 are shown in the following table:

Noninterest Expense	For the three months ended			
	March 31			
	2010	2009	\$ change	% change
Salary and employee benefits	\$ 1,296	\$ 1,260	\$ 36	2.86%
Occupancy and equipment	172	171	1	0.58
Insurance Fund Premium	83	172	(89)	-51.74
Other operating expenses	386	404	(18)	-4.46
Total noninterest expense	\$ 1,937	\$ 2,007	\$ (70)	-3.49%

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 funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2010, was \$345,209 as compared to \$363,528 at December 31, 2009. The decrease is attributable to paydowns on loans received during the normal course of business being greater than borrowings to fund new loan advances.

CAPITAL RESOURCES

Total members' equity at March 31, 2010, increased to \$77,201 from the December 31, 2009, total of \$76,794. The increase is primarily attributed to the increase in unallocated surplus resulting from the increased net income.

Total capital stock and participation certificates were \$1,204 on March 31, 2010, compared to \$1,246 on December 31, 2009. This decrease is attributed to the retirement of stock and participation certificates on loans liquidated in the normal course of business.

Farm Credit Administration 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 15.77 percent and 13.65 percent, respectively, and the permanent capital ratio was 16.41 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 1-800-533-2773, or writing D. Scott Fontenot, CFO, Farm Credit of Central Florida, ACA, P. O. Box 8009, Lakeland, FL 33802, or accessing the website, www.farmcreditfl.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of Central Florida, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2010 <i>(unaudited)</i>	December 31, 2009 <i>(audited)</i>
Assets		
Cash	\$ 98	\$ 61
Investment securities:		
Held to maturity (fair value of \$50,480 and \$50,057 respectively)	50,019	49,648
Loans	357,601	370,775
Less: allowance for loan losses	7,984	5,959
Net loans	349,617	364,816
Loans held for sale	—	149
Accrued interest receivable	1,927	1,819
Investment in other Farm Credit institutions	15,800	16,225
Premises and equipment, net	967	998
Other property owned	1,882	2,026
Due from AgFirst Farm Credit Bank	1,677	4,377
Other assets	5,086	5,665
Total assets	<u>\$ 427,073</u>	<u>\$ 445,784</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank (Note 5)	\$ 345,209	\$ 363,528
Accrued interest payable	760	768
Patronage refund payable	32	34
Other liabilities	3,871	4,660
Total liabilities	<u>349,872</u>	<u>368,990</u>
Commitments and contingencies		
Members' Equity		
Protected borrower equity	20	33
Capital stock and participation certificates	1,184	1,213
Retained earnings		
Allocated	33,183	33,183
Unallocated	42,786	42,338
Accumulated other comprehensive income (loss)	28	27
Total members' equity	<u>77,201</u>	<u>76,794</u>
Total liabilities and members' equity	<u>\$ 427,073</u>	<u>\$ 445,784</u>

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

Farm Credit of Central Florida, ACA

Consolidated Statements of Income

(unaudited)

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

(dollars in thousands)

	2010	2009
Interest Income		
Investment securities	\$ 234	\$ 290
Loans	4,259	5,619
Total interest income	4,493	5,909
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	2,256	3,302
Net interest income	2,237	2,607
Provision for (reversal of allowance for) loan losses	2,155	1,890
Net interest income after provision for (reversal of allowance for) loan losses	82	717
Noninterest Income		
Loan fees	149	273
Fees for financially related services	25	164
Equity in earnings of other Farm Credit institutions	1,747	1,140
Gains (losses) on other property owned, net	(145)	—
Gains (losses) on sale of rural home loans, net	39	47
Insurance Fund refund	428	—
Other noninterest income	59	56
Total noninterest income	2,302	1,680
Noninterest Expense		
Salaries and employee benefits	1,296	1,260
Occupancy and equipment	172	171
Insurance Fund premium	83	172
Other operating expenses	386	404
Total noninterest expense	1,937	2,007
Income before income taxes	447	390
Provision (benefit) for income taxes	—	—
Net income	\$ 447	\$ 390

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

Farm Credit of Central Florida, ACA
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

(dollars in thousands)

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2008	\$ 39	\$ 1,259	\$ 34,758	\$ 40,252	\$ 31	\$ 76,339
Comprehensive income						
Net income				390		390
Employee benefit plans adjustment					(1)	(1)
Total comprehensive income						389
Protected borrower equity retired	(6)					(6)
Capital stock/participation certificates issued/(retired), net		(14)				(14)
Patronage distribution adjustment			(433)	953		520
Balance at March 31, 2009	\$ 33	\$ 1,245	\$ 34,325	\$ 41,595	\$ 30	\$ 77,228
Balance at December 31, 2009	\$ 33	\$ 1,213	\$ 33,183	\$ 42,338	\$ 27	\$ 76,794
Comprehensive income						
Net income				447		447
Employee benefit plans adjustments					1	1
Total comprehensive income						448
Protected borrower equity retired	(13)					(13)
Capital stock/participation certificates issued/(retired), net		(29)				(29)
Patronage distribution adjustment				1		1
Balance at March 31, 2010	\$ 20	\$ 1,184	\$ 33,183	\$ 42,786	\$ 28	\$ 77,201

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

Farm Credit of Central Florida, 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 Central Florida, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 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 6).

NOTE 2 — INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held-to-maturity at March 31, 2010 and December 31, 2009 follows:

	March 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 50,019	\$ 533	\$ (72)	\$ 50,480	2.49%

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 49,648	\$ 490	\$ (81)	\$ 50,057	1.87%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities held-to-maturity at March 31, 2010 follows:

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 31	\$ 32	1.48%
After one year through five years	2,413	2,447	2.19
After five years through ten years	29,703	29,994	2.33
After ten years	17,872	18,007	2.79
Total	\$ 50,019	\$ 50,480	2.49%

The Association's investments consist of asset-backed securities (ABSs). These ABSs are rated AAA and they are guaranteed by the full faith and credit of the United States government. ABSs are held for managing short-term surplus funds and managing interest rate risk. These securities must meet the applicable Farm Credit Administration (FCA) regulatory guidelines, which require these securities to be high quality, senior class, and rated AAA at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or

credit enhancement achieved through over collateralization and the priority of payments of senior classes over junior classes. The FCA considers an asset-backed security investment ineligible if it falls below the AAA credit rating criteria and requires System institutions to divest of such an investment unless approval is granted to continue to hold by the FCA. All of the Association's asset-backed securities at March 31, 2010 are considered eligible under FCA regulatory guidelines.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The following table shows the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at March 31, 2010:

	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ -	\$ -	\$ 1,883	\$ (72)

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes.

Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment as the unrealized losses resulted primarily from non-credit related factors. The Association has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements. The Association does not intend to sell these investments and it is not more likely than not that the Association would be required to sell these investments before recovering its costs. Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform.

NOTE 3 – 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	\$ 5,959	\$ 5,243
Provision for (reversal of) loan losses	2,155	1,890
Charge-offs	(130)	(595)
Recoveries	-	-
Balance at end of period	\$ 7,984	\$ 6,538

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

	2010	2009
Impaired loans with related allowance	\$28,411	\$13,475
Impaired loans with no related allowance	6,231	9,179
Total impaired loans	34,642	22,654
Allowance on impaired loans	\$ 5,320	\$ 4,870

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

	2010	2009
Average impaired loans	\$ 32,390	\$ 13,298
Interest income recognized on impaired loans	26	16

NOTE 4 – 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	\$ 280	\$ 353
401(k)	34	33
Other postretirement benefits	44	44
Total	\$ 358	\$ 430

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	\$ 5	\$ 952	\$ 957
Other postretirement benefits	35	98	133
Total	\$ 40	\$ 1,050	\$ 1,090

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 5 – NOTES PAYABLE TO AGFIRST FARM CREDIT BANK

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which in 2009 included borrowing base margins, earnings and capital covenants. The Association failed to meet its earning covenant at December 31, 2009. The default allows the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank approved a temporary waiver of the default at December 31, 2009. During the first quarter of 2010, following review of a plan submitted by the Association to achieve compliance with the covenant, the Bank approved an extension of the temporary waiver of the default and allowed the Association to continue to operate under a special credit arrangement pursuant to its GFA through December 31, 2010. The Association has continued to perform its obligations under the special credit arrangement.

NOTE 6 – 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 a supplemental retirement plan. 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 or liabilities measured at fair value on a recurring basis at March 31, 2010.

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 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 principal 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
Assets:				
Assets held in trust funds	\$ 155	\$ -	\$ -	\$ 155
Total Assets	\$ 155	\$ -	\$ -	\$ 155

Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 88	\$ 88
Total Liabilities	\$ -	\$ -	\$ 88	\$ 88

December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 159	\$ -	\$ -	\$ 159
Total Assets	\$ 159	\$ -	\$ -	\$ 159

Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 97	\$ 97
Total Liabilities	\$ -	\$ -	\$ 97	\$ 97

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	\$ 97
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(9)
Transfers in and/or out of level 3	-
Balance at March 31, 2010	<u>\$ 88</u>

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 110
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(3)
Transfers in and/or out of level 3	-
Balance at March 31, 2009	<u>\$ 107</u>

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				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 16,318	\$ 16,318	\$ (1,717)
Other property owned	\$ -	\$ -	\$ 336	\$ 336	\$ (65)

	December 31, 2009				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 19,589	\$ 19,589	\$ (7,254)
Other property owned	\$ -	\$ -	\$ 1,954	\$ 1,954	\$ (72)

NOTE 7 — 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
Financial assets:				
Cash	\$ 98	\$ 98	\$ 61	\$ 61
Loans, net of allowance	\$ 349,617	\$ 352,914	\$ 364,816	\$ 369,745
Investment securities	\$ 50,019	\$ 50,480	\$ 49,648	\$ 50,057
Assets held in trust funds	\$ 155	\$ 155	\$ 159	\$ 159
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 345,209	\$ 347,485	\$ 363,528	\$ 366,737

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 Securities:** Fair value is primarily based upon prices obtained from a third party valuation service.
- D. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 4.08 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.

In addition, the Association has an investment of \$316 related to other Farm Credit institutions.

- E. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.
- F. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.
- G. **Assets Held in Trust Funds:** See Note 6 for discussion of estimation of fair value for this instrument.

NOTE 8 – SUBSEQUENT EVENTS

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.