
Southwest Georgia Farm Credit, ACA

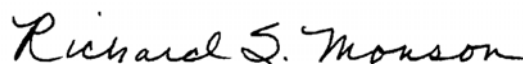
THIRD QUARTER 2009

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2009 quarterly report of Southwest Georgia Farm Credit, 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.



Richard S. Monson
President/CEO



Belinda Robertson
Chief Financial Officer



Bobby J. Brooks
Chairman of the Board

October 28, 2009

Southwest Georgia Farm Credit, ACA

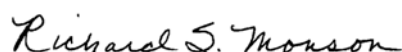
Report on Internal Control Over Financial Reporting

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.

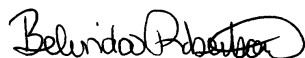
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions 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 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



Richard S. Monson
Chief Executive Officer



Belinda Robertson
Chief Financial Officer

October 28, 2009

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Southwest Georgia Farm Credit, 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 timber, landlords, poultry, cotton, livestock, peanuts, fruit and nut, vegetables and dairy. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income in the area, reduces the level of dependency on a given commodity.

Investment securities classed as available for sale and held to maturity as of September 30, 2009 were \$ 28,548 and \$6,377 respectively, a decrease of \$4,782 as compared to December 31, 2008. The gross loan volume of the Association as of September 30, 2009, was \$361,899, a decrease of \$11,855 as compared to \$373,754 at December 31, 2008. Net loans outstanding at September 30, 2009, were \$357,947 as compared to \$370,395 at December 31, 2008.

The Association entered into commitments to acquire Successor-in-Interest Contracts (SIIC) in the fourth quarter of 2005. As of September 30, 2009, the Association had \$58,526 in other investments for SIIC, a decrease of \$10,791 compared to \$69,317 at December 31, 2008.

Total assets at September 30, 2009 were \$486,024, compared to \$522,456 at December 31, 2008, a decrease of \$36,432 or 6.97 percent.

Net loans and investments accounted for 92.88 percent of total assets at September 30, 2009, as compared to 91.76 percent of total assets at December 31, 2008. The decrease in total assets was primarily attributed to reductions in loans, Successor-In-Interest Contracts (SIIC),

investments and accrued patronage from AgFirst Farm Credit Bank and other Farm Credit institutions. The decrease in loans is due to normal run-off. The association's strategy during the economic downturn has been to minimize growth in loan volume and concentrate on the core agriculture business. This strategy has allowed the association to better manage the capital and liquidity position. The SIIC reduction is due to the large \$12 million dollar annual payment received in January, 2009. The decrease in patronage is based on the year end declaration of AgFirst Farm Credit Bank patronage which once declared is recognized as association equity, therefore when comparing to a previous year end balance there will normally be a negative variance in early quarters.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has deteriorated over the past year, with loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" at 86.06 percent of total loans and accrued interest as compared to 88.62 percent at December 31, 2008.

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended.

Nonaccrual loans as of September 30, 2009 were \$35,380, an increase of \$15,023 as compared to \$20,357 at December 31, 2008. The increase in nonaccrual activity is due to sixteen additional customers transferred into non-accrual this year. The classification of these loans are widely represented and not specific to a particular industry.

As of September 30, 2009, the association has two real estate properties classed as Other Property Owned after being acquired through foreclosures. One of these properties is currently under contract and expected to close by the end of October 2009. The other larger property will be auctioned in late October with a November closing date. Management continues to closely monitor and evaluate the portfolio quality to identify and mitigate potential risk.

The Association maintains an allowance for loan losses at a level considered sufficient to absorb possible losses within the loan portfolio based on current and expected future conditions. The Association increases the allowance by providing a provision for loan losses in the income statement.

Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan is uncollectible. Any subsequent recoveries are added to the allowance. Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances. Managements' evaluations consider factors which include, among many other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions.

The allowance for loan losses at September 30, 2009, was \$3,952 compared to \$3,359 as of December 31, 2008 an increase of \$593. The increase in the allowance is associated with the loans transferred into nonaccrual.

RESULTS OF OPERATIONS

For the three months ended September 30, 2009

Net loss for the three months ended September 30, 2009, totaled \$1,014, a decrease of \$2,708 as compared to net income of \$1,694 for the same period in 2008. The net loss is specifically related to the provision for loan losses associated with loans that were transferred to nonaccrual.

At September 30, 2009, interest income on accruing loans was \$4,678, a decrease of \$2,058 as compared to \$6,736 for the same period in 2008. Interest income on investment securities was \$227 for the three months ended September 30, 2009, a decrease of \$82 as compared to \$309 from the same period in 2008. Other interest income from SIIC's for the three months ended September 30, 2009 was \$776 a decrease of \$154 compared to \$930 for the same period in 2008. The decrease in earnings on the foregoing assets are primarily related to the reduction and divestiture of income producing assets as the association positioned itself to strengthen capital. Lower interest rates were a secondary factor to this decrease.

Interest expense for the three months ended September 30, 2009 was \$3,780, a decrease of \$1,896, as compared to \$5,676 for the same period in 2008.

Non-interest income for the three months ended September 30, 2009, totaled \$1,462, a decrease of \$590 as compared to \$2,052 for the same period in 2008. The decrease is primarily attributed to less estimated patronage earnings from AgFirst Farm Credit Bank and a decrease in loan fee income, both a result of the planned reduction in loan volume.

Non-interest expense for the three months ended September 30, 2009 totaled \$2,209, an increase of \$227 as compared to \$1,982 for the same period in 2008.

For the nine months ended September 30, 2009

Net loss for the nine months ended September 30, 2009, totaled \$848, a decrease of \$5,460 as compared to net loss of \$6,308 for the same period in 2008. The net loss is specifically related to the provision for loan losses associated with loans that were transferred to nonaccrual this year.

At September 30, 2009, interest income on accruing loans was \$14,269 a decrease of \$6,397 as compared to \$20,666 for the same period in 2008. Interest income on investment securities was \$624 for the nine months ended on September 30, 2009, a decrease of \$287 as compared to \$911 from the same period in 2008. Other interest income from SIIC's for the nine months ended September 30, 2009 was \$2,321 a decrease of \$468 for the same period in 2008. The decrease in earnings on the foregoing assets are primarily related to the reduction and divestiture of the income producing assets as the association positioned itself to strengthen capital. Lower interest rates were a secondary factor to this decrease.

Interest expense for the nine months ending September 30, 2009 was \$11,776, a decrease of \$5,595 as compared to \$17,371 for the same period in 2008.

Non-interest income for the nine months ended September 30, 2009, totaled \$4,837, a decrease of \$1,848 as compared to \$6,685 for the same period in 2008. The decrease is primarily attributed to less estimated patronage earned from AgFirst Farm Credit Bank and a decrease in loan fee income, both a result of the planned reduction in loan volume.

Non-interest expense for the nine months ended September 30, 2009 totaled \$6,490, an increase of \$944 as compared to \$5,546 for the same period in 2008. The increase is primarily due to higher expenses associated with employee retirement benefits.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (Note 5). 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 September 30, 2009, was \$419,062, a decrease of \$31,678 as compared to \$450,740 at December 31, 2008. The decrease is primarily the result of reduced loan volume and other investments on the balance sheet. Please see footnote number 5 for additional information on the status of the General Financing Covenant.

CAPITAL RESOURCES

Total members' equity at September 30, 2009, decreased \$877 to \$62,504 from the December 31, 2008, total of \$63,381. Total capital stock and participation certificates were \$1,492 as of September 30, 2009, a decrease of \$6 compared to \$1,498 at December 31, 2008.

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 13.33 percent and 10.68 percent, respectively, and the permanent capital ratio was 13.70 percent. All three ratios were 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 1-229-246-0384 or 1-866-304-3276, writing Belinda H. Robertson, Chief Financial Officer, Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817 or accessing the website, www.swgafarmcredit.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.

Southwest Georgia Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2009 <i>(unaudited)</i>	December 31, 2008 <i>(audited)</i>
Assets		
Cash	\$ 39	\$ 2,971
Investment securities:		
Available for sale (amortized cost of \$28,526 and \$0 respectively) (Note 2)	28,548	—
Held to maturity (fair value of \$5,889 and \$39,536 respectively) (Note 2)	6,377	39,707
Total investment securities	34,925	39,707
Loans	361,899	373,754
Less: allowance for loan losses	3,952	3,359
Net loans	357,947	370,395
Other investments	58,526	69,317
Accrued interest receivable	4,951	6,132
Investment in other Farm Credit institutions	15,046	16,246
Premises and equipment, net	4,600	3,382
Other property owned	1,900	3,725
Due from AgFirst Farm Credit Bank	4,122	6,237
Other assets	3,968	4,344
Total assets	\$ 486,024	\$ 522,456
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 419,062	\$ 450,740
Accrued interest payable	1,221	1,663
Patronage refund payable	18	23
Other liabilities	3,219	6,649
Total liabilities	423,520	459,075
Commitments and contingencies		
Members' Equity		
Protected borrower equity	255	297
Capital stock and participation certificates	1,237	1,201
Retained earnings		
Allocated	23,931	23,993
Unallocated	37,059	37,890
Accumulated other comprehensive income (loss)	22	—
Total members' equity	62,504	63,381
Total liabilities and members' equity	\$ 486,024	\$ 522,456

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

Southwest Georgia Farm Credit, ACA

Consolidated Statements of Operations

(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				
Investment securities	\$ 227	\$ 309	\$ 624	\$ 911
Loans	4,678	6,736	14,269	20,666
and \$0 respectively) (Note 2)	776	930	2,321	2,789
Total interest income	5,681	7,975	17,214	24,366
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	3,780	5,676	11,776	17,371
Net interest income	1,901	2,299	5,438	6,995
Provision for (reversal of allowance for) loan losses	2,168	742	4,631	14,440
Net interest income after provision for (reversal of allowance for) loan losses	(267)	1,557	807	(7,445)
Noninterest Income				
Loan fees	149	270	711	1,073
Equity in earnings of other Farm Credit institutions	1,357	1,729	4,147	5,511
Gains (losses) on other property owned, net	(49)	47	(344)	47
Gains (losses) on sale of rural home loans, net	—	—	—	(3)
Other noninterest income	5	6	323	57
Total noninterest income	1,462	2,052	4,837	6,685
Noninterest Expense				
Salaries and employee benefits	1,283	1,141	3,874	3,135
Occupancy and equipment	150	113	465	344
Insurance Fund premium	152	140	444	414
Other operating expenses	624	588	1,707	1,653
Total noninterest expense	2,209	1,982	6,490	5,546
Income (loss) before income taxes	(1,014)	1,627	(846)	(6,306)
Provision (benefit) for income taxes	—	(67)	2	2
Net income (loss)	\$ (1,014)	\$ 1,694	\$ (848)	\$ (6,308)

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

Southwest Georgia Farm Credit, 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	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2007	\$ 353	\$ 1,170	\$ 27,115	\$ 44,309	\$ —	\$ 72,947
Net income				(6,308)		(6,308)
Protected borrower equity retired	(43)					(43)
Capital stock/participation certificates issued/(retired), net		25				25
Retained earnings retired			(2,646)			(2,646)
Patronage distribution adjustment			(476)	4		(472)
Balance at September 30, 2008	\$ 310	\$ 1,195	\$ 23,993	\$ 38,005	\$ —	\$ 63,503
Balance at December 31, 2008	\$ 297	\$ 1,201	\$ 23,993	\$ 37,890	\$ —	\$ 63,381
Comprehensive income						
Net income				(848)		(848)
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					22	22
Total comprehensive income						(826)
Protected borrower equity retired	(42)					(42)
Capital stock/participation certificates issued/(retired), net		36				36
Retained earnings retired			(62)			(62)
Patronage distribution adjustment			—	17		17
Balance at September 30, 2009	\$ 255	\$ 1,237	\$ 23,931	\$ 37,059	\$ 22	\$ 62,504

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

Southwest Georgia Farm Credit, 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 Southwest Georgia Farm Credit, 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 6), 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, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have

Significantly Decreased and Identifying Transactions That Are Not Orderly". The guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for the fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. The guidance indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The Association adopted this guidance effective June 30, 2009 (see Note 2 and Note 6).

In April 2009, the FASB issued guidance, "Recognition and Presentation of Other-Than-Temporary Impairments", which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

This guidance changes existing impairment guidance related to accounting for certain investments in debt and equity securities by eliminating the "ability and intent to hold" provision. In addition, impairment is now considered to be other than temporary if an entity 1) intends to sell the security, 2) more likely than not will be required to sell the security before recovering its cost, or 3) does not expect to

recover the security's entire amortized cost basis (even if the entity does not intend to sell). The "probability" standard relating to the collectability of cash flows is also eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into 1) the estimated amount relating to credit loss, and 2) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. For held-to-maturity securities, the portion of the other-than-temporary impairment not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities are expanded and will now be required quarterly (see Note 2), as well as annually.

The Association adopted this guidance effective June 30, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. There was no initial adjustment to apply this guidance for the Association since no other-than-temporary impairment was previously recognized by the Association.

In April 2009, the 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 7).

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 8).

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 — INVESTMENT SECURITIES

As permitted under the FCA regulations, the Association holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. During the second quarter of 2009, the Association reclassified its asset backed securities portfolio from Held to Maturity (HTM) to Available for Sale (AFS) as the AFS classification more accurately reflects management's intent regarding the Association's asset backed securities portfolio. Thus, in accordance with FASB guidance regarding accounting for certain investments in debt and equity securities, available-for-sale investments are reported at fair value with changes in the fair value excluded from earnings and reported in a separate component of Members' Equity called Other Comprehensive Income. Upon sale of an investment, the realized gain or loss is included in current earnings.

A summary of the amortized cost and fair value of investment securities available-for-sale at September 30, 2009 and December 31, 2008 follows:

	September 30, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$28,526	\$ 95	\$ (73)	\$ 28,548	1.38%

A summary of the amortized cost and fair value of investment securities held-to-maturity at September 30, 2009 and December 31, 2008 follows:

	September 30, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Other	\$ 6,377	\$ 130	\$ (618)	\$ 5,889	6.82%

	December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 33,264	\$ 152	\$ (130)	\$ 33,286	2.77%
Other	\$ 6,443	\$ 234	\$ (426)	\$ 6,250	6.71%

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

Available-for-Sale:

	September 30, 2009		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 420	\$ 424	2.10%
After one year through five years	26,997	27,005	1.33
After five years through ten years	1,109	1,119	2.34
After ten years	-	-	-
Total	\$ 28,526	\$ 28,548	1.38%

Held-to-Maturity:

	September 30, 2009		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	-	-	-
After five years through ten years	-	-	-
After ten years	6,377	5,889	6.82
Total	\$ 6,377	\$ 5,889	6.82%

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

The following table shows the fair value and gross unrealized losses for investments in a loss position by the length of time the securities have been in a continuous unrealized loss position at September 30, 2009. The continuous loss position is based on the date the impairment occurred. The Association performs periodic credit reviews, including other-

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

	September 30, 2009			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ 5,889	\$ (618)	\$ -	\$ -
Other	9,026	\$ (24)	7,139	(49)
Total	\$ 14,915	\$ (642)	\$ 7,139	\$ (49)

NOTE 3 – 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	\$ 3,359	\$ 520
Provision for (reversal of) loan losses	4,631	14,440
Charge-offs	(4,059)	(10,355)
Recoveries	21	2
Balance at end of period	\$ 3,952	\$ 4,607

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

	2009	2008
Impaired loans with related allowance	\$16,411	\$ 6,930
Impaired loans with no related allowance	18,969	9,165
Total impaired loans	35,380	16,095
Allowance on impaired loans	\$ 3,065	\$ 3,085

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

	2009	2008
Average impaired loans	\$ 33,955	\$ 15,638
Interest income recognized on impaired loans	489	455

NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the nine months ended September 30,	
	2009	2008
Pension	\$ 690	\$ 178
401(k)	95	92
Other postretirement benefits	90	91
Total	\$ 875	\$ 361

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

	Actual YTD Through 9/30/09	Projected Contributions For Remainder of 2009	Projected Total Contributions 2009
Other postretirement benefits	\$ 60	\$ 25	\$ 85

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 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 2008, included liquidity, earnings and solvency covenants. At December 31, 2008, the Association was operating under a special credit arrangement in connection with the Bank's waiver of a pre-existing default of its liquidity covenant. Effective December 31, 2008, the GFA for all Associations was amended to measure liquidity under its Borrowing Base Formula. The Association failed to meet the revised liquidity requirement as well as the earnings covenant at December 31, 2008. The defaults allow the Bank to accelerate repayment of all indebtedness. In 2009, following review of a plan submitted by the Association to achieve compliance with the covenants, the Bank approved a temporary waiver of the defaults and allowed the Association to continue operating under a special credit arrangement pursuant to the GFA. The Association has continued to perform under the GFA, notwithstanding its covenant defaults.

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 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 investments available for sale, 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 has no Level 1 assets or liabilities at September 30, 2009.

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 Level 2 assets and no Level 2 liabilities measured at fair value on a recurring basis at September 30, 2009. Level 2 assets include available-for-sale investment securities that are traded in active, non-exchange markets. These securities are U.S. agency debt securities, all of which have unadjusted values from third-party or internal pricing models. The fair value of substantially all of the Association's available-for-sale investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

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 could include instrument 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 principal 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			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments available-for-sale	\$ -	\$ 28,548	\$ -	\$ 28,548
Total Assets	\$ -	\$ 28,548	\$ -	\$ 28,548
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 21	\$ 21
Total Liabilities	\$ -	\$ -	\$ 21	\$ 21

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	\$ 40
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(19)
Transfers in and/or out of level 3	-
Balance at September 30, 2009	\$ 21

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			Total Fair Value	YTD Total Gains (Losses)
	Level 1	Level 2	Level 3		
Assets:					
Impaired loans	\$ -	\$ -	\$ 13,346	\$ 13,346	\$ (4,520)
Other property owned	\$ -	\$ -	\$ 1,900	\$ 1,900	\$ (321)

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 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	\$ 39	\$ 39
Loans, net of allowance	\$ 357,947	\$ 365,785
Investment securities	\$ 34,925	\$ 34,437
Tobacco Buyout SIIC	\$ 58,526	\$ 62,825
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	\$ 419,062	\$ 429,719

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

A. **Cash:** The carrying value is a reasonable estimate of fair value.

B. **Loans:** Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Bank's loan rates, as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

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

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

The carrying value of accrued interest approximates its fair value.

C. **Investment Securities:** Fair value is primarily based upon prices obtained from a third party valuation service. See additional information in Note 6.

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 3.65 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.

In addition, the Association has an investment of \$1,124 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. **Tobacco Buyout SIIC:** Fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.

NOTE 8 – 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.