Southwest Georgia Farm Credit, ACA

SECOND QUARTER 2010

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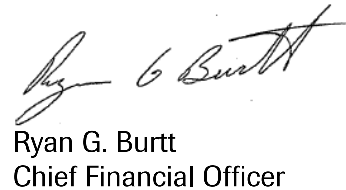
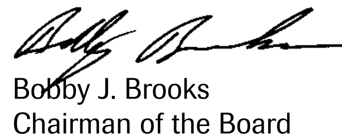
CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2010 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



Ryan G. Burtt
Chief Financial Officer



Bobby J. Brooks
Chairman of the Board

August 6, 2010

Southwest Georgia Farm Credit, ACA

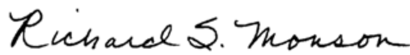
Report on Internal Control Over Financial Reporting

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.

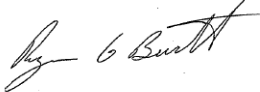
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions 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 June 30, 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 June 30, 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 June 30, 2010.



Richard S. Monson
Chief Executive Officer



Ryan G. Burtt
Chief Financial Officer

August 6, 2010

Southwest Georgia Farm Credit, ACA

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 June 30, 2010. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2009 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities 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. These factors, along with the opportunities for non-farm income in the area, reduces the level of dependency on any given commodity.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of June 30, 2010, was $316,644, a decrease of $19,328 as compared to $335,972 at December 31, 2009. Net loans outstanding at June 30, 2010, were $311,350 as compared to $331,114 at December 31, 2009. Net loans and investments accounted for 91.34 percent of total assets at June 30, 2010, as compared to 92.02 percent of total assets at December 31, 2009.

Total assets at June 30, 2010 were $402,302 compared to $462,274 at December 31, 2009, a decrease of $59,972 or 12.97 percent. The decrease in total assets was primarily attributed to reductions in loans, Successor-In-Interest Contracts (SIIC), and investments. The decrease in loans is due to normal run-off. The association sold 100% of the available for sale investment securities during the month of June and realized a loss of $76. The SIIC reduction is attributed to the large $12 million dollar annual payment received in January, 2010.

Investment securities classed as available for sale and held to maturity as of June 30, 2010 were $0 and $8,673 respectively, a decrease $26,319 as compared to December 31, 2009.

The Association entered into commitments to acquire Successor-in-interest Contracts (SIIC) in the fourth quarter of 2005. As of June 30, 2010, the Association had $47,431 in other investments for SIIC, a decrease of $11,871 compared to $59,302 at December 31, 2009.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality experienced significant deterioration during 2009 and early 2010. However, the association has seen slow but steady improvement in recent months with loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" at 90.17 percent of total loans and accrued interest as compared to 84.94 percent at December 31, 2009.

Nonaccrual loans as of June 30, 2010 were $27,232, a decrease of $7,309 as compared to $34,541 at December 31, 2009. The decrease is primarily the result of $3,906 in charge-offs and $9,554 of foreclosures now classified as other property owned. Association staff is working diligently to work through all of the nonaccrual debt situations.

As of June 30, 2010, the association has three properties classed as Other Property Owned. The properties consist of real estate in Georgia, North Carolina, Tennessee and Florida. The Association is actively marketing the properties for sale.

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. The Risk Management Committee (RIMCO), which is comprised of members of the Board of Directors, senior management, and senior lending staff, meets quarterly to evaluate the adequacy of the allowance account. The evaluation considers factors which include, among many other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions.

After review, RIMCO determined the allowance account contained an overage of $1,700, which was reversed from the allowance to the income statement. The allowance for loan losses at June 30, 2010, was $5,294 compared to $4,858 as of December 31, 2009 an increase of $436. The association has realized $6,087 in recoveries this year against the allowance. The majority of the funds were received from recoveries on prior years charge-offs from sources other than the borrower or the underlying collateral.

RESULTS OF OPERATIONS

For the three months ended June 30, 2010

At June 30, 2010, total interest income was $4,802 a decrease of $897 as compared to $5,699 for the same period in 2009. Of the $4,802 in total interest income $207 was from investment securities, $3,981 was from loans, and $614 was from other. The decrease in total interest income is primarily related to the reduction in loan and investment assets, and a lower interest rate environment.

Interest expense was $2,872 a decrease of $1,040, as compared to $3,912 for the same period in 2009.

Non-interest loss for the three months ended June 30, 2010, totaled $403, a decrease of $2,052 as compared to $1,649 in income for the same period in 2009. The loss is primarily the result of $1,799 in losses recognized from sales on other property owned and the realized loss of $76 on the divestment of available for sale securities.

Non-interest expense for the three months ended June 30, 2010 totaled $2,071, a decrease of $79 as compared to $2,150 for the same period in 2009. The decrease is primarily due to reductions in Farm Credit System Insurance expense (FCSIC).

Net income for the three months ended June 30, 2010, totaled $1,156, an increase of $2,335 as compared to net loss of $1,179 for the same period in 2009

For the six months ended June 30, 2010

At June 30, 2010, total interest income was $10,143 a decrease of $1,390 as compared to $11,533 for the same period in 2009. Of the $10,143 in total interest income $439 was from investment securities, $8,460 was from loans, and $1,244 was from other. The decrease in total interest income is primarily related to the reduction in loan and investment assets, and a lower interest rate environment.

Interest expense was $5,982 a decrease of $2,014, as compared to $7,996 for the same period in 2009.

Non-interest income for the six months ended June 30, 2010, totaled $1,328, a decrease of $2,047 as compared to $3,375 for the same period in 2009. The decrease is primarily attributed to losses recognized on sales of other property owned and losses realized on the sale of available for sale investments.

Non-interest expense for the six months ended June 30, 2010 totaled $4,033, a decrease of $248 as compared to $4,281 for the same period in 2009. The decrease is primarily due to reductions in Farm Credit System Insurance expense.

Net income for the six months ended June 30, 2010, totaled $3,156, an increase of $2,990 as compared to $166 for the same period in 2009.

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 June 30, 2010, was $331,987, a decrease of $56,521 as compared to $388,508 at December 31, 2009. The decrease is primarily the result of liquidation of loans and investments. Please see footnote number 5 for additional information on the status of the General Financing Covenant.

CAPITAL RESOURCES

Total members' equity at June 30, 2010, increased $3,057 to $66,493 from the December 31, 2009, total of $63,436. Total capital stock and participation certificates were $1,415 as of June 30, 2010, a decrease of $85 compared to $1,500 at December 31, 2009.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2010, the Association's capital and surplus ratios were: permanent capital 18.08 percent, total surplus 17.64 percent and core surplus 14.49 percent. All three ratios were above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus and 3.50 percent for the core surplus.

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. 2378, 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, Treasurer, 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

(dollars in thousands)	June 30, 2010 (unaudited)	December 31, 2009 (audited)
Assets		
Cash	$ 232	$ 2,575
Investment securities:		
Available for sale (amortized cost of $0 and $27,262 respectively)	—	27,142
Held to maturity (fair value of $8,796 and $6,824 respectively)	8,673	7,850
Total investment securities	8,673	34,992
Loans	316,644	335,972
Less: allowance for loan losses	5,294	4,858
Net loans	311,350	331,114
Loans held for sale	—	166
Other investments	47,431	59,302
Accrued interest receivable	3,578	4,360
Investment in other Farm Credit institutions	12,805	13,730
Premises and equipment, net	4,530	4,611
Other property owned	7,854	1,285
Due from AgFirst Farm Credit Bank	2,175	5,434
Other assets	3,674	4,705
Total assets	$ 402,302	$ 462,274
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 331,987	$ 388,508
Accrued interest payable	883	1,180
Patronage refund payable	5	18
Other liabilities	2,934	9,132
Total liabilities	335,809	398,838
Commitments and contingencies		
Members' Equity		
Protected borrower equity	152	255
Capital stock and participation certificates	1,263	1,245
Retained earnings		
Allocated	23,702	23,894
Unallocated	41,376	38,162
Accumulated other comprehensive income (loss)	—	(120)
Total members' equity	66,493	63,436
Total liabilities and members' equity	$ 402,302	$ 462,274

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

Southwest Georgia Farm Credit, ACA

Consolidated Statements of Operations

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Interest Income				
Investment securities	$ 207	$ 213	$ 439	$ 397
Loans	3,981	4,714	8,460	9,591
Other	614	772	1,244	1,545
Total interest income	4,802	5,699	10,143	11,533
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	2,872	3,912	5,982	7,996
Net interest income	1,930	1,787	4,161	3,537
Provision for (reversal of allowance for) loan losses	(1,700)	2,463	(1,700)	2,463
Net interest income (loss) after provision for (reversal of allowance for) loan losses	3,630	(676)	5,861	1,074
Noninterest Income				
Loan fees	197	243	535	562
Equity in earnings of other Farm Credit institutions	1,265	1,404	2,492	2,790
Gains (losses) on other property owned, net	(1,799)	(2)	(2,037)	(295)
Gains (losses) on sales of investment securities	(76)	—	(76)	—
Insurance Fund refund	—	—	381	—
Other noninterest income	10	4	33	318
Total noninterest income (loss)	(403)	1,649	1,328	3,375
Noninterest Expense				
Salaries and employee benefits	1,308	1,252	2,553	2,591
Occupancy and equipment	144	187	301	315
Insurance Fund premium	7	151	75	292
Other operating expenses	612	560	1,104	1,083
Total noninterest expense	2,071	2,150	4,033	4,281
Income (loss) before income taxes	1,156	(1,177)	3,156	168
Provision (benefit) for income taxes	—	2	—	2
Net income (loss)	$ 1,156	$ (1,179)	$ 3,156	$ 166

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 Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2008	$ 297	$ 1,201	$ 23,993	$ 37,890	$ —	$ 63,381
Comprehensive income						
Net income				166		166
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					(1)	(1)
Total comprehensive income						165
Protected borrower equity retired	(42)					(42)
Capital stock/participation certificates issued/(retired), net		34				34
Balance at June 30, 2009	$ 255	$ 1,235	$ 23,993	$ 38,056	$ (1)	$ 63,538
Balance at December 31, 2009	$ 255	$ 1,245	$ 23,894	$ 38,162	$ (120)	$ 63,436
Comprehensive income						
Net income				3,156		3,156
Employee benefit plans adjustments					120	120
Total comprehensive income						3,276
Protected borrower equity retired	(103)					(103)
Capital stock/participation certificates issued/(retired), net		18				18
Retained earnings retired			(192)			(192)
Patronage distribution adjustment			—	58		58
Balance at June 30, 2010	$ 152	$ 1,263	$ 23,702	$ 41,376	$ —	$ 66,493

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

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, 2009, are contained in the 2009 Annual Report to Shareholders. These unaudited second 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 six months ended June 30, 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 June 30, 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

During June 2010 the Association sold its asset backed securities (ABSs) portfolio in the amunt of $24,112 with a realized loss of $76. A summary of the amortized cost and fair value of investment securities available-for-sale at December 31, 2009 follows:

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	$ 27,262	$ 55	$ (175)	$ 27,142	1.37%

A summary of the amortized cost and fair value of investment securities held-to-maturity at June 30, 2010 and December 31, 2009 follows:

	June 30, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission related investments	$ 8,673	$ 236	$ (113)	$ 8,796	6.50%

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission related investments	$ 7,850	$ 52	$(1,078)	$ 6,824	6.58%

A summary of expected maturity, amortized cost, and estimated fair value of investment securities at June 30, 2010 and December 31, 2009 follows:

Held-to-Maturity:

	June 30, 2010		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 210	$ 216	6.75%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	8,463	8,580	6.49
Total	$ 8,673	$ 8,796	6.50%

Available-for-Sale:

	December 31, 2009		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 551	$ 553	1.91%
After one year through five years	25,616	25,490	1.32
After five years through ten years	1,095	1,099	2.34
After ten years	–	–	–
Total	$ 27,262	$ 27,142	1.37%

Held-to-Maturity:

	December 31, 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	7,850	6,824	6.58
Total	$ 7,850	$ 6,824	6.58%

The Association's investments consist primarily 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. Asset-backed securities are held for maintaining a liquidity reserve, 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 June 30, 2010 are considered eligible under FCA regulatory guidelines. Mission related investments consist of private placement securities purchased under the Rural America Bond Program approved by the FCA.

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 June 30, 2010 and December 31, 2009:

	June 30, 2010			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ –	$ –	$ –	$ –
Mission Related Investments	900	(10)	2,112	(103)
Total	$ 900	$ (10)	$ 2,112	$ (103)

	December 31, 2009			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ 11,922	$ (89)	$ 6,816	$ (86)
Mission Related Investments	6,824	(1,078)	–	–
Total	$ 18,746	$ (1,167)	$ 6,816	$ (86)

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. Full payment of principal and interest is expected. 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 six months ended June 30,	
	2010	2009
Balance at beginning of period	$ 4,858	$ 3,359
Provision for (reversal of) loan losses	(1,700)	2,463
Charge-offs	(3,951)	(2,261)
Recoveries	6,087	21
Balance at end of period	$ 5,294	$ 3,582

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

	2010	2009
Impaired loans with related allowance	$16,950	$12,542
Impaired loans with no related allowance	10,761	26,103
Total impaired loans	27,711	38,645
Allowance on impaired loans	$ 1,367	$ 2,932

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

	2010	2009
Average impaired loans	$ 35,304	$ 32,202
Interest income recognized on impaired loans	674	370

NOTE 4 — EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2010	2009
Pension	$ 496	$ 460
401(k)	62	64
Other postretirement benefits	64	60
Total	$ 622	$ 584

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

	Actual YTD Through 6/30/10	Projected Contributions For Remainder of 2010	Projected Total Contributions 2010
Pension	$ –	$ 840	$ 840
Other postretirement benefits	47	49	96
Total	$ 47	$ 889	$ 936

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 for 2009 included borrowing base margin, earnings and capital covenants. The Association failed to meet its borrowing base margin and earnings covenants at December 31, 2009. The defaults allow the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank approved a temporary waiver of the defaults at December 31, 2009. During the first quarter of 2010, following review of a plan submitted by the Association to achieve compliance with the covenants, the Bank approved an extension of the temporary waiver of the defaults 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 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 June 30, 2010.

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 June 30, 2010. 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 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 June 30, 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 June 30, 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 June 30, 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 table presents the assets and liabilities that are measured at fair value on a recurring basis at June 30, 2010 and December 31, 2009 for each of the fair value hierarchy levels:

	June 30, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale (ABSs)	$ –	$ –	$ –	$ –
Total Assets	$ –	$ –	$ –	$ –
Liabilities:				
Standby letters of credit	$ –	$ –	$ 7	$ 7
Total Liabilities	$ –	$ –	$ 7	$ 7

	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale (ABSs)	$ –	$ 27,142	$ –	$ 27,142
Total Assets	$ –	$ 27,142	$ –	$ 27,142
Liabilities:				
Standby letters of credit	$ –	$ –	$ 15	$ 15
Total Liabilities	$ –	$ –	$ 15	$ 15

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2010 and 2009. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first six months of 2010 and 2009.

	Standby Letters Of Credit
Balance at January 1, 2010	$ 15
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	(8)
Transfers in and/or out of level 3	–
Balance at June 30, 2010	$ 7

	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	(4)
Transfers in and/or out of level 3	–
Balance at June 30, 2009	$ 36

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis at June 30, 2010 and December 31, 2009 for each of the fair value hierarchy values are summarized below:

	June 30, 2010				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired Loans	$ –	$ –	$ 15,582	$ 15,582	$ 2,503
Other Property Owned	$ –	$ –	$ 7,854	$ 7,854	$ (1,937)

	December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired Loans	$ –	$ –	$ 4,794	$ 4,794	$ (2,283)
Other Property Owned	$ –	$ –	$ 1,285	$ 1,285	$ (872)

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 June 30, 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:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	$ 232	$ 232	$ 2,575	$ 2,575
Loans, net of allowance	$ 311,350	$ 317,131	$ 331,114	$ 338,247
Investment securities	$ 8,673	$ 8,796	$ 34,992	$ 33,966
Tobacco Buyout SIIC	$ 47,431	$ 51,332	$ 59,302	$ 63,060
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 331,987	$ 340,834	$ 388,508	$ 398,426

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:** For asset-backed securities, fair value is primarily based upon prices obtained from a third party valuation service. See Note 6 for further information. For mission related investments, fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.

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 3.07 percent of the issued stock of the Bank as of June 30, 2010 net of any reciprocal investment. As of that date, the Bank's assets totaled $30.7 billion and shareholders' equity totaled $1.9 billion. The Bank's earnings were $206.7 million during the first six months of 2010.

   In addition, the Association has an investment of $1,120 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 – REGULATORY ENFORCEMENT MATTERS

During the first quarter of 2010, the FCA entered into a written agreement with the Association. The written agreement requires the Association to take corrective actions with respect to certain areas of its operations, including capital, portfolio management, and asset quality.

NOTE 9 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through August 6, 2010, which is the date the financial statements were issued.