

SECOND QUARTER 2010

TABLE OF CONTENTS

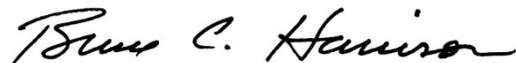
Report on Internal Control Over Financial Reporting.....	2
Management’s Discussion and Analysis of Financial Condition and Results of Operations.....	3
Consolidated Financial Statements	
Consolidated Balance Sheets.....	6
Consolidated Statements of Income	7
Consolidated Statements of Changes in Members’ Equity.....	8
Notes to the Consolidated Financial Statements	9

CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2010 quarterly report of Farm Credit of Northwest Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Ricky K. Bitner
Chief Executive Officer



Bruce C. Harrison
Chief Financial Officer



James G. Ditty
Chairman of the Board

August 6, 2010

Farm Credit of Northwest Florida, ACA

Report on Internal Control Over Financial Reporting

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

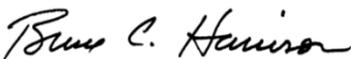
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of 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.



Ricky Bitner
Chief Executive Officer



Bruce C. Harrison
Chief Financial Officer

August 6, 2010

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Northwest Florida, ACA (Association) for the period ending 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.

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 including forestry, row crops, livestock, peanuts, horticulture, dairies and rural homes. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of June 30, 2010, was \$420,585, a decrease of \$21,011, as compared to \$441,596 at December 31, 2009. Net loans outstanding (gross loans net of the allowance for loan losses) at June 30, 2010, were \$407,761 as compared to \$432,872 at December 31, 2009. Net loans accounted for 92.46 percent of total assets at June 30, 2010, as compared to 92.21 percent of total assets at December 31, 2009.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has deteriorated due to poor credit administration and a downturn in the overall economic environment. Nonaccrual loans were \$46,351, an increase of \$11,848 from \$34,503 at December 31, 2009. Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2010 was \$12,824 as compared to \$8,724 at December 31, 2009, an increase of \$4,100. This increase was due to continued loan quality deterioration.

The allowance for loan loss of \$12,824 at June 30, 2010 was considered by management to be adequate to cover probable losses. The allowance for loan losses of \$12,824 represents 3.05% of the loan balances as of June 30, 2010. The

Other property owned was \$15,255 as of June 30, 2010 as compared to \$15,464 at December 31, 2009. This decrease of \$209 was due to sales of \$4,076, write downs of \$525 and acquisitions of \$4,392.

Amounts due from AgFirst Farm Credit Bank decreased to \$1,611 as of June 30, 2010 as compared to \$4,337 as of December 31, 2009. These amounts represent patronage due from AgFirst at both June 30, 2010 and December 31, 2009 and special distribution receivable of \$524 due from AgFirst at December 31, 2009. The decrease of \$2,726 is primarily due to the fact that the amount due at June 30, 2010 was for two quarters and the amount due at December 31, 2009 was for four quarters. Also, there was no special distribution receivable at June 30, 2010.

RESULTS OF OPERATIONS

For the three months ending June 30, 2010

Net loss for the three months ending June 30, 2010, totaled \$3,349, as compared to net loss of \$3,795 for the same period in 2009, a decrease in net loss of \$446. Components of the increase in net income are discussed further in the following paragraphs.

For the three months ending June 30, 2010, interest income decreased by \$1,452 or 21.66 percent compared to the same period ending June 30, 2009. For the three months ending June 30, 2010 interest expense decreased by \$1,088 or 25.13 percent, compared to the period ending June 30, 2009. Other interest expense decreased by \$4. These decreases resulted in a decrease in net interest income of \$360, compared to the period ending June 30, 2009. The changes in interest income, interest expense and net interest income were the result of interest rate reductions, a decrease in loan volume, an increase in nonaccrual loan volume and a decrease in earnings on the loanable funds credit due to the reduction in the loanable funds credit balance.

The provision for loan losses for the three months ending June 30, 2010 was \$4,760 as compared to \$5,747 compared to the period ending June 30, 2009, a decrease of \$987.

Noninterest income for the three months ending June 30, 2010 totaled \$249, as compared to \$1,048 for the same period of 2009, a decrease of \$799. This decrease was primarily due to a decrease in the equity in earnings of other Farm Credit institutions of \$180 and an increase in losses on other property owned (OPO) of \$643 and an increase in loan fees of \$23. Regarding the \$180 decrease in the equity in earnings of other Farm Credit institutions, general patronage income decreased by \$106 due to reduced loan volume, patronage from the Capital Participation Pool income decreased by \$316 due to loan losses in that pool and these decreases were offset by additional income due to a special distribution from AgFirst of \$243. Regarding the \$643 increase in losses on other property owned, \$68 was increased losses due to sales of OPO, \$50 was current expenses related to OPO and \$525 was due to write-downs of OPO to fair market value.

Noninterest expense for the three months ending June 30, 2010 totaled \$1,305, as compared to \$1,467 for the same period of 2009, a decrease of \$162. This decrease was due to an increase in salaries and benefits of \$37, a decrease in Insurance Fund Premiums of \$204, an increase in occupancy and equipment of \$1 and an increase in other operating expenses of \$4. The decrease in the Insurance Fund Premiums was due to a reduction in the premium rate from 10 basis points to 5 basis points on accruing loan volume. The rate reduction became effective as of January 1, 2010, applied in June, with a refund for the first five months of 2010 received in June 2010.

The benefit for income taxes of \$456 was due to a refund received from the IRS resulting from a net operating loss carryback to prior years.

For the six months ending June 30, 2010

Net loss for the six months ending June 30, 2010, totaled \$1,685 as compared to net loss of \$2,518 for the same period in 2009, a decrease in net loss of \$833. This decrease was primarily due to a decrease in net interest income and a significant increase in the provision for loan loss, both as compared to the same period in the prior year. Each of these items is discussed further in the following paragraphs.

For the six months ending June 30, 2010, interest income decreased by \$3,156 or 22.58 percent compared to the same period ending June 30, 2009. For the six months ending June 30, 2010 interest expense decreased by \$2,260 or 25.28 percent, compared to the period ending June 30, 2009. Other interest expense decreased by \$10. These decreases resulted in a decrease in net interest income of \$886, compared to the period ending June 30, 2009. The changes in interest income, interest expense and net interest income were the result of interest rate reductions, a decrease in loan volume, an increase in nonaccrual loan volume and a decrease in earnings on the loanable funds credit due the the reduction in the loanable funds credit balance.

The provision for loan losses for the three months ending June 30, 2010 was \$5,138 as compared to \$6,812 compared to the period ending June 30, 2009, a decrease of \$1,674.

Noninterest income for the six months ending June 30, 2010, totaled \$1,600, as compared to \$2,158 for the same period of 2009, a decrease of \$558. This decrease was primarily due to a decrease in the equity in earnings of other Farm Credit institutions of \$232 and an increase in losses on other property owned of \$835, an increase in Insurance Fund refund of \$492 and an increase in loan fees of \$22. Regarding the \$232 decrease in the equity in earnings of other Farm Credit institutions, general patronage income decreased by \$184 due to reduced loan volume, patronage from the Capital Participation Pool income decreased by \$311 due to loan losses in that pool (offset by a CPP refund of \$20) and these decreases were offset by additional income due to a special distribution from AgFirst of \$243. Regarding the \$835 increase in losses on other property owned, \$155 was increased losses due to sales of OPO, \$155 was current expenses related to OPO and \$525 was due to write-downs of OPO to fair market value.

Noninterest expense for the six months ending June 30, 2010, decreased \$147 as compared to the same period of 2009. This decrease was due to an increase in salaries and benefits of \$153, a decrease in Insurance Fund Premiums of \$315, a decrease in occupancy and equipment of \$3 and an increase in other operating expenses of \$12. Regarding the salaries and benefits component, employee benefit costs increased by \$100 while all other salary and related expenses increased by \$53.

The benefit for income taxes of \$456 was due to a refund received from the IRS resulting from a net operating loss carryback to prior years.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2010 was \$368,071 as compared to \$393,791 at December 31, 2009.

CAPITAL RESOURCES

Total members' equity at June 30, 2010 decreased to \$69,171 from the December 31, 2009 total of \$70,918. The decrease is primarily attributed to net loss of \$1,685 for the six months ending June 30, 2010.

Total capital stock and participation certificates were \$1,146 on June 30, 2010, compared to \$1,152 on December 31, 2009. This decrease of \$6 is attributed to capital stock and participation certificates issuances of \$13 and retirements of \$19.

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 total surplus ratio and core surplus ratio were 14.15 percent and 13.55 percent, respectively, and the permanent capital ratio was 14.41 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio. Recent projections indicate that the Association's core surplus ratio may fall below the FCA regulatory requirement of 3.5% in the fourth quarter of 2010.

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 850-526-4910 ext. 103, or writing Bruce C. Harrison, Chief Financial Officer, Farm Credit of Northwest Florida, ACA, P.O. Box 7000, Marianna, FL 32447, or accessing the website, www.farmcredit-fl.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of Northwest Florida, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2010 <i>(unaudited)</i>	December 31, 2009 <i>(audited)</i>
Assets		
Cash	\$ 569	\$ —
Loans	420,585	441,596
Less: allowance for loan losses	12,824	8,724
Net loans	407,761	432,872
Accrued interest receivable	2,798	3,315
Investment in other Farm Credit institutions	9,390	9,506
Premises and equipment, net	1,388	1,430
Other property owned	15,255	15,464
Due from AgFirst Farm Credit Bank	1,611	4,337
Other assets	2,219	2,504
Total assets	\$ 440,991	\$ 469,428
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 368,071	\$ 393,791
Accrued interest payable	1,001	1,248
Patronage refund payable	31	31
Other liabilities	2,717	3,440
Total liabilities	371,820	398,510
Commitments and contingencies		
Members' Equity		
Protected borrower equity	7	14
Capital stock and participation certificates	1,139	1,138
Retained earnings		
Allocated	51,960	52,016
Unallocated	16,065	17,750
Total members' equity	69,171	70,918
Total liabilities and members' equity	\$ 440,991	\$ 469,428

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Operations

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Interest Income				
Loans	\$ 5,253	\$ 6,705	\$ 10,823	\$ 13,979
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	3,242	4,330	6,679	8,939
Other	—	4	—	10
Total interest expense	<u>3,242</u>	<u>4,334</u>	<u>6,679</u>	<u>8,949</u>
Net interest income	2,011	2,371	4,144	5,030
Provision for (reversal of allowance for) loan losses	<u>4,760</u>	<u>5,747</u>	<u>5,138</u>	<u>6,812</u>
Net interest income (loss) after provision for (reversal of allowance for) loan losses	<u>(2,749)</u>	<u>(3,376)</u>	<u>(994)</u>	<u>(1,782)</u>
Noninterest Income				
Loan fees	67	44	124	102
Equity in earnings of other Farm Credit institutions	877	1,057	1,869	2,101
Gains (losses) on other property owned, net	(698)	(55)	(890)	(55)
Insurance Fund refund	—	—	492	—
Other noninterest income	3	2	5	10
Total noninterest income	<u>249</u>	<u>1,048</u>	<u>1,600</u>	<u>2,158</u>
Noninterest Expense				
Salaries and employee benefits	951	914	1,933	1,780
Occupancy and equipment	82	81	168	165
Insurance Fund premium	9	213	110	425
Other operating expenses	263	259	536	524
Total noninterest expense	<u>1,305</u>	<u>1,467</u>	<u>2,747</u>	<u>2,894</u>
Income (loss) before income taxes	(3,805)	(3,795)	(2,141)	(2,518)
Provision (benefit) for income taxes	<u>(456)</u>	<u>—</u>	<u>(456)</u>	<u>—</u>
Net income (loss)	<u>\$ (3,349)</u>	<u>\$ (3,795)</u>	<u>\$ (1,685)</u>	<u>\$ (2,518)</u>

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2008	\$ 16	\$ 1,231	\$ 52,055	\$ 21,571	\$ 74,873
Net income				(2,518)	(2,518)
Protected borrower equity retired	(2)				(2)
Capital stock/participation certificates issued/(retired), net		(97)			(97)
Retained earnings retired			(31)		(31)
Patronage distribution adjustment			2	(4)	(2)
Balance at June 30, 2009	\$ 14	\$ 1,134	\$ 52,026	\$ 19,049	\$ 72,223
Balance at December 31, 2009	\$ 14	\$ 1,138	\$ 52,016	\$ 17,750	\$ 70,918
Net income				(1,685)	(1,685)
Protected borrower equity retired	(7)				(7)
Capital stock/participation certificates issued/(retired), net		1			1
Retained earnings retired			(55)		(55)
Balance at June 30, 2010	\$ 7	\$ 1,139	\$ 51,960	\$ 16,065	\$ 69,171

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 Farm Credit of Northwest Florida, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2009, are contained in the 2009 Annual Report to Shareholders. These unaudited 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

detailed 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 5).

NOTE 2 – 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	\$ 8,724	\$ 3,294
Provision for (reversal of) loan losses	5,138	6,812
Charge-offs	(1,129)	(3,520)
Recoveries	91	380
Balance at end of period	<u>\$12,824</u>	<u>\$ 6,966</u>

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

	2010	2009
Impaired loans with related allowance	\$27,380	\$14,833
Impaired loans with no related allowance	23,109	24,017
Total impaired loans	<u>50,489</u>	<u>38,850</u>
Allowance on impaired loans	<u>\$ 7,858</u>	<u>\$ 1,630</u>

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

	2010	2009
Average impaired loans	\$ 37,672	\$ 34,247
Interest income recognized on impaired loans	103	307

NOTE 3 – 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	\$ 306	\$ 311
401(k)	51	45
Other postretirement benefits	51	45
Total	<u>\$ 408</u>	<u>\$ 401</u>

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	\$ –	\$ 520	\$ 520
Other postretirement benefits	65	10	75
Total	<u>\$ 65</u>	<u>\$ 530</u>	<u>\$ 595</u>

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 4 – 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 operate under a special credit arrangement pursuant to its GFA through December 31, 2010. At June 30, 2010, the Association was in violation of the borrowing base margin and earnings covenants of the special credit arrangement. The Bank has approved a waiver of these defaults and an extension of the existing special credit arrangement through September 30, 2010 to allow for development of a plan to address the defaults. The Association has continued to perform all other obligations under the special credit arrangement.

NOTE 5 – 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 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 measured at fair value on a recurring basis 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 no Level 2 assets or liabilities measured at fair value on a recurring basis at June 30, 2010.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities include instruments whose price has

been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at 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 principle 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.

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	\$ -	\$ -	\$ 22,833	\$ 22,833	\$ (5,666)
Other property owned	\$ -	\$ -	\$ 11,855	\$ 11,855	\$ (736)

	December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired Loans	\$ -	\$ -	\$ 14,962	\$ 14,962	\$ (7,871)
Other property owned	\$ -	\$ -	\$ 15,532	\$ 15,532	\$ (952)

NOTE 6 — 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	\$ 569	\$ 569	\$ -	\$ -
Loans, net of allowance	\$407,761	\$ 413,421	\$ 432,872	\$ 441,426
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$368,071	\$ 373,579	\$ 393,791	\$ 399,705

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 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 2.36 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 \$405 related to other Farm Credit institutions.

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

NOTE 7 – REGULATORY ENFORCEMENT MATTERS

During the first quarter of 2010, the Association entered into a written agreement with the Farm Credit Administration. The written agreement requires the Association to take corrective actions with respect to certain areas of its operations, including board operations, strategic planning and staffing, internal controls, asset quality, loan portfolio management, portfolio risk, capital, earnings and liquidity.

NOTE 8 – 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.