AgCarolina Financial, ACA

SECOND QUARTER 2009

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2009 quarterly report of AgCarolina Financial, 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.

Eugene R. Charville

Eugene R. Charville
Chief Executive Officer

David W. Corum

David W. Corum
Chief Financial Officer

Dick Tunnell

Dick Tunnell
Chairman of the Board

July 30, 2009

AgCarolina Financial, 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, 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 June 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 June 30, 2009.

Eugene R. Charville

Eugene R. Charville
Chief Executive Officer

David W. Corum

David Corum
Chief Financial Officer

July 30, 2009

AgCarolina Financial, 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 AgCarolina Financial (Association) for the six months ended June 30, 2009. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2008 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. Predominant commodities in the portfolio are tobacco, cotton, forestry, and hogs, which constitute $507,616, or 57 percent, of the loan portfolio as of June 30, 2009. Other major farm commodities include poultry, landlords, farm services, field crops, horticulture, and general livestock. 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 a given commodity.

The net loan volume of the Association as of June 30, 2009, was $882,582, an increase of $51,061 or 6.14 percent as compared to $831,521 at December 31, 2008. Net loans accounted for 89.07 percent of total assets at June 30, 2009 as compared to 86.63 percent of total assets at December 31, 2008. The increase in net loan volume during the reporting period is primarily attributed to seasonal lending. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak in August and declines in the fall and winter months as farm commodities are marketed and proceeds are applied to the operating loans.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans increased from $12,058 at December 31, 2008 to $15,082 at June 30, 2009, for an increase of 25.08 percent. The increase is due to the addition of a small number of larger accounts into nonaccruing status. 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. During the quarter the Association recognized net loan losses of $1,167 and subsequently increased the allowance for loan losses by $1,190 through a provision for loan losses. The allowance for loan losses at June 30, 2009 was $7,637 as compared to $7,618 at December 31, 2008 and was considered by management to be adequate to cover possible losses. The ratio of the allowance for loan losses to loans at June 30, 2009 was 0.86 percent.

Other investments consists of tobacco buyout Successor-in-Interest Contracts (SIIC) which come under the FCA's Mission Related Investments. Under the SIIC, the tobacco quota holders and producers may assign their rights to receive tobacco buyout contract payments to a third party. The third party, or successor, purchases the entire contract and all related rights and obligations associated with the contract. As of June 30, 2009 the Association held tobacco buyout SIIC of $61,917, a decrease of $8,710 or 12.33%, as compared to $70,627 as of December 31, 2008. The decrease is due to the receipt of the scheduled annual payment from the government during the first quarter.

RESULTS OF OPERATIONS

For the three months ended June 30, 2009

Net income for the three months ended June 30, 2009 totaled $3,220, a decrease of $1,413, or 30.50 percent, as compared to the same period of 2008. The primary reason for the decrease in net income is due to an increase in the provision for loan losses of $1,190, and an increase in noninterest expense over the same period in 2008. At June 30, 2009, total interest income decreased by $2,134 compared to June 30, 2008. The decrease in interest income is primarily due to the general decrease in interest rates as compared to the same period in 2008.

Interest income from nonaccrual loans was $26 for the three months ended June 30, 2009, a decrease of $23 from the same period of 2008. Interest expense decreased $2,166 for the three months ended June 30, 2009, as compared to the comparable period of 2008. The decrease in interest expense is primarily attributed to the general decline in interest rates.

Noninterest income for the three months ended June 30, 2009 totaled $2,763 as compared to $2,495 for the same period of 2008, an increase of $268. The increase is primarily due to an increase in equity in earnings of other Farm Credit institutions, and from other income.

Noninterest expense for the three months ended June 30, 2009 was $3,976, an increase of $525 as compared to the same period of 2008. The major components of noninterest expense are salaries and employee benefits, occupancy and equipment expenses, and general operating expenses. Salaries and employee benefits totaled $2,734 for the three months ended June 30, 2009, for an increase of $467, or 20.60 percent, as compared to the same period of 2008. The increase is primarily due to increased costs related to the Association's pension plan.

For the six months ended June 30, 2009

Net income for the six months ended June 30, 2009 totaled $6,871, a decrease of $2,589, or 27.37 percent, as compared to the same period of 2008. The primary reason for the decrease in net income is due to the provision for loan losses of $1,590. At June 30, 2009, total interest income decreased by $4,915 compared to the same period in 2008. The decrease in interest income is due primarily to the general decrease in interest rates as compared to the same period in 2008.

Interest income from nonaccrual loans was $97 as of June 30, 2009, a decrease of $6 from the same period of 2008. Interest expense decreased $4,789 for the first six months in 2009, as compared to the comparable period of 2008. The decrease in interest expense is also primarily attributed to the decrease in interest rates.

Noninterest income for the six months ended June 30, 2009 totaled $5,846 as compared to $5,620 for the same period of 2008, an increase of $226. The increase is primarily due to an increase in equity in earnings of other Farm Credit institutions.

Noninterest expense for the six months ended June 30, 2009 was $8,258, an increase of $1,101 as compared to the same period of 2008. The major component of noninterest expense is salaries and employee benefits. Salaries and employee benefits totaled $5,587 for the six months ended June 30, 2009, for an increase of $1,039 or 22.85 percent, as compared to the same period of 2008. The increase is primarily due to increased costs related to the Association's pension plan.

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with AgFirst Farm Credit Bank (Bank) and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2009 was $832,812 as compared to $799,323 at December 31, 2008. The 4.19 percent increase during the period is primarily attributed to seasonal lending.

The Association has no lines of credit outstanding with third parties as of June 30, 2009.

CAPITAL RESOURCES

Total members' equity at June 30, 2009, increased 7.88 percent to $143,690 from the December 31, 2008, total of $133,194. The increase is attributed to the increase in retained earnings and capital stock. Total capital stock and participation certificates were $15,504 on June 30, 2009, as compared to $11,727 on December 31, 2008. The increase in capital stock resulted primarily from an increase in preferred stock. As of June 30, 2009 the Association had $12,468 of preferred stock outstanding as compared to $8,702 as of 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 June 30, 2009, the Association's total surplus ratio and core surplus ratio were both 13.07 percent, and the permanent capital ratio was 14.92 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-919-250-9500, writing Linda Strickland, AgCarolina Financial, ACA, P. O. Box 14789, Raleigh, NC 27620, or accessing the website, *www.agcarolina.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.

AgCarolina Financial, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2009	December 31, 2008
	(unaudited)	*(audited)*
Assets		
Cash	$ 138	$ 1,775
Loans	890,219	839,139
Less: allowance for loan losses	7,637	7,618
Net loans	882,582	831,521
Loans held for sale		
Other investments	61,917	70,627
Accrued interest receivable	11,774	17,371
Investment in other Farm Credit institutions	13,542	13,542
Premises and equipment, net	8,252	8,347
Other property owned	617	252
Due from AgFirst Farm Credit Bank	—	6,330
Other assets	12,017	10,114
Total assets	$ 990,839	$ 959,879
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 832,812	$ 799,323
Accrued interest payable	2,247	2,736
Patronage refund payable	77	6,592
Other liabilities	12,013	18,034
Total liabilities	847,149	826,685
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	15,504	11,727
Retained earnings		
Allocated	62,060	61,465
Unallocated	66,126	60,002
Total members' equity	143,690	133,194
Total liabilities and members' equity	$ 990,839	$ 959,879

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

AgCarolina Financial, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2009	For the three months ended June 30, 2008	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Interest Income				
Loans	$ 11,522	$ 13,568	$ 23,012	$ 27,781
Other	858	946	1,689	1,835
Total interest income	12,380	14,514	24,701	29,616
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,757	8,923	13,828	18,617
Net interest income	5,623	5,591	10,873	10,999
Provision for (reversal of allowance for) loan losses	1,190	—	1,590	—
Net interest income after provision for (reversal of allowance for) loan losses	4,433	5,591	9,283	10,999
Noninterest Income				
Loan fees	839	890	2,180	2,337
Fees for financially related services	140	62	271	235
Equity in earnings of other Farm Credit institutions	1,646	1,530	3,194	2,925
Gains (losses) on other property owned, net	(6)	—	(2)	—
Gains (losses) on sale of rural home loans, net	14	17	18	24
Other noninterest income	130	(4)	185	99
Total noninterest income	2,763	2,495	5,846	5,620
Noninterest Expense				
Salaries and employee benefits	2,734	2,267	5,587	4,548
Occupancy and equipment	292	253	562	541
Insurance Fund premium	366	309	699	593
Other operating expenses	584	622	1,410	1,475
Total noninterest expense	3,976	3,451	8,258	7,157
Income before income taxes	3,220	4,635	6,871	9,462
Provision (benefit) for income taxes	—	2	—	2
Net income	$ 3,220	$ 4,633	$ 6,871	$ 9,460

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

AgCarolina Financial, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2007	$ 12,092	$ 56,644	$ 58,446	$ 127,182
Net income			9,460	9,460
Capital stock/participation certificates issued/(retired), net	1,932			1,932
Dividends declared/paid	203		(203)	
Patronage distribution adjustment		26	(43)	(17)
Balance at June 30, 2008	$ 14,227	$ 56,670	$ 67,660	$ 138,557
Balance at December 31, 2008	$ 11,727	$ 61,465	$ 60,002	$ 133,194
Net income			6,871	6,871
Capital stock/participation certificates issued/(retired), net	3,622			3,622
Dividends declared/paid	155		(155)	—
Patronage distribution adjustment		595	(592)	3
Balance at June 30, 2009	$ 15,504	$ 62,060	$ 66,126	$ 143,690

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 AgCarolina Financial, 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 second 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 six months ended June 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 June 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 Financial Accounting Standards Board (FASB) Statement of Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. The impact of adoption requires additional fair value disclosures (see Note 4), primarily regarding other property owned, but does not have an impact on the Association's financial condition or results of operations.

In April 2009, the FASB issued FSP No. 107-1 and Accounting Principles Board (APB) No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This FSP requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The FSP is effective for interim periods ending after June 15, 2009 (see Note 5).

In May 2009, the FASB issued SFAS No. 165, "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. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized 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 Standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009 (see Note 6).

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,	
	2009	**2008**
Balance at beginning of period	$ 7,618	$ 6,877
Provision for (reversal of) loan losses	1,590	–
Charge-offs	(1,595)	–
Recoveries	24	6
Balance at end of period	$ 7,637	$ 6,883

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

	2009	2008
Impaired loans with related allowance	$ 2,352	$ 423
Impaired loans with no related allowance	12,739	5,110
Total impaired loans	$ 15,091	$ 5,533
Allowance on impaired loans	$ 478	$ 197

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

	2009	2008
Average impaired loans	$ 13,750	$ 4,208
Interest income recognized on impaired loans	$ 99	$ 139

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,	
	2009	2008
Pension	$ 1,219	$ 224
401(k)	179	190
Other postretirement benefits	215	200
Total	$ 1,613	$ 614

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

	Actual YTD Through 6/30/09	Projected Contributions For Remainder of 2009	Projected Total Contributions 2009
Pension	$ -	$ -	$ -
Other postretirement benefits	160	212	372
Total	$ 160	$ 212	$ 372

Actuarial calculations as of the last plan measurement date (December 31, 2008) projected no contributions to the pension plan for 2009. However, market conditions could impact discount rates and return on plan assets which could make additional contributions necessary before the next plan measurement date of December 31, 2009.

Further details regarding employee benefit plans are contained in the 2008 Annual Report to Shareholders.

NOTE 4 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities primarily consist of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

SFAS No. 157 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.

SFAS No. 157 establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at June 30, 2009 consist of assets held in trust funds and liabilities related to deferred compensation plans and assets held in mutual funds related to the Association's Corporate Giving Fund. The trust funds and mutual funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could 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, 2009 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under SFAS No. 114. 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, 2009. The fair value for other property owned is based upon the collateral less estimated costs to sell. Level 3 liabilities at June 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 June 30, 2009 for each of the fair value hierarchy levels:

	June 30, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	$ 2,028	$ -	$ -	$ 2,028
Assets held in Mutual funds	585	-	-	585
Total Assets	$ 2,613	$ -	$ -	$ 2,613
Liabilities:				
Deferred Compensation Liabilities	$ 1,691	$ -	$ -	$ 1,691
Standby letters of credit	$ -	$ -	$ 83	$ 83
Total Liabilities	$ 1,691	$ -	$ 83	$ 1,774

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	$ 81
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	2
Transfers in and/or out of level 3	-
Balance at June 30, 2009	$ 83

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

	June 30, 2009				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ -	$ -	$ 1,874	$ 1,874	$ (718)
Other property owned	$ -	$ -	$ 617	$ 617	$ 7

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at June 30, 2009.

	June 30, 2009	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 138	$ 138
Loans, net of allowance	$ 882,582	$ 902,740
Tobacco Buyout SIIC	$ 61,917	$ 64,990
Assets held in trust funds	$ 2,028	$ 2,028
Assets held in Mutual funds	$ 585	$ 585
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 832,812	$ 849,794
Deferred Compensation Liability	$ 1,691	$ 1,691

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.

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

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

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

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

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

   The carrying value of accrued interest approximates its fair value.

C. **Investment in AgFirst Farm Credit Bank:** Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 3.08 percent of the issued stock of the Bank as of June 30, 2009 net of any reciprocal investment. As of that date, the Bank's assets totaled $30.0 billion and shareholders' equity totaled $1.5 billion. The Bank's earnings were $116 million during the first six months of 2009.

D. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures. The carrying value of accrued interest approximates its fair value.

E. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

F. **Tobacco Buyout SIIC:** Fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.

G. **Assets Held in Trust Funds and Deferred Compensation Liabilities:** See Note 4 for discussion of estimation of fair value for this instrument.

NOTE 6 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through July 30, 2009, which is the date the financial statements were available to be issued.