

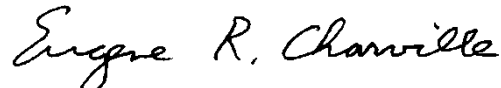
SECOND QUARTER 2010

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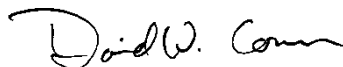
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CERTIFICATION

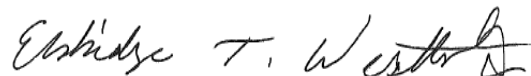
The undersigned certify that we have reviewed the June 30, 2010 quarterly report of AgCarolina Financial, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the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



Eugene R. Charville
President & CEO



David W. Corum
Executive Vice President & CFO



Eldridge T. Westbrook
Chairman of the Board

August 6, 2010

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.

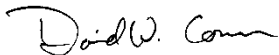
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions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



Eugene R. Charville
President & CEO



David Corum
Executive Vice President & CFO

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 AgCarolina Financial (Association) for the six months ended June 30, 2010. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2009 annual report of the Association.

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 \$489,145, or 56 percent, of the loan portfolio as of June 30, 2010. 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, 2010, was \$859,185, an increase of \$32,498 or 3.93 percent as compared to \$826,687 at December 31, 2009. Net loans accounted for 89.24 percent of total assets at June 30, 2010 as compared to 86.83 percent of total assets at December 31, 2009. 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 \$23,126 at December 31, 2009 to \$29,612 at June 30, 2010, for an increase of 28.05 percent. The increase is due to the general deterioration of the economy. 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 increased the allowance

for loan losses by \$500 through a provision for loan losses. The allowance for loan losses at June 30, 2010 was \$9,970 as compared to \$9,682 at December 31, 2009 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, 2010 was 1.15 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, 2010 the Association held tobacco buyout SIIC of \$55,011, a decrease of \$11,933 or 17.83%, as compared to \$66,944 as of December 31, 2009. The decrease is due to the receipt of the scheduled annual payment from the government.

RESULTS OF OPERATIONS

For the three months ended June 30, 2010

Net income for the three months ended June 30, 2010 totaled \$4,792, an increase of \$1,572, or 48.82 percent, as compared to the same period of 2009. The primary reason for the increase in net income is due to a reduction in the provision for loan losses of \$690, and from \$458 in special patronage received during the second quarter from AgFirst Farm Credit Bank. At June 30, 2010, total interest income decreased by \$860 compared to June 30, 2009. The decrease in interest income is due to both a decline in loan volume and interest rates as compared to the same period in 2009.

Interest income from nonaccrual loans was \$102 for the three months ended June 30, 2010, an increase of \$76 from the same period of 2009. Interest expense decreased \$824 for the three months ended June 30, 2010, as compared to the comparable period of 2009. The decrease in interest expense is also attributed to the decline in loan volume and interest rates.

Noninterest income for the three months ended June 30, 2010 totaled \$3,111 as compared to \$2,763 for the same period of 2009, an increase of \$348. The increase is primarily due to the \$458 in special patronage from AgFirst.

Noninterest expense for the three months ended June 30, 2010 was \$3,406, a decrease of \$570 as compared to the same period of 2009. The Insurance Fund premium totaled \$11 during the quarter, a reduction of \$355 as compared to the same period of 2009. The reason for the decrease was due to a reduction in the premium rate charged that was retroactive to January 1, 2010. Salaries and employee benefits totaled \$2,589 for the three months ended June 30, 2010, for a decrease of \$145, or 5.30 percent, as compared to the same period of 2009. The decrease in salaries and employee benefits is primarily due to a reduction in the number of employees and a reduction in incentive compensation.

For the six months ended June 30, 2010

Net income for the six months ended June 30, 2010 totaled \$9,577, an increase of \$2,706, or 39.38 percent, as compared to the same period of 2009. The primary reasons for the increase in net income is due to a \$1,091 refund from the Farm Credit System Insurance Corporation (FCSIC,) from \$458 in special patronage received from AgFirst Farm Credit Bank, and from a reduction in the provision for loan losses of \$590. At June 30, 2010, total interest income decreased by \$2,025 compared to the same period in 2009. The decrease in interest income is due to both a decline in loan volume and interest rates as compared to the same period in 2009.

Interest income from nonaccrual loans was \$148 as of June 30, 2010, an increase of \$51 from the same period of 2009. Interest expense decreased \$1,880 for the first six months in 2010, as compared to the comparable period of 2009. The decrease in interest expense is also attributed to the decline in loan volume and interest rates.

Noninterest income for the six months ended June 30, 2010 totaled \$7,136 as compared to \$5,846 for the same period of 2009, an increase of \$1,290. The increase is primarily due to the Insurance Fund refund of \$1,091, and the AgFirst special patronage of \$458.

Noninterest expense for the six months ended June 30, 2010 was \$7,287, a decrease of \$971 as compared to the same period of 2009. The Insurance Fund premium totaled \$179 during the quarter, a reduction of \$520 as compared to the same period of 2009, and resulted from a reduction in the premium rate for 2010. Salaries and employee benefits totaled \$5,294 for the six months ended June 30, 2010, for a decrease of \$293 or 5.24 percent, as compared to the same period of 2009. The decrease is primarily due to a reduction in the number of employees and a reduction in incentive compensation.

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, 2010 was \$782,316 as compared to \$780,436 at December 31, 2009. The 0.24 percent increase during the period is primarily attributed to a loan seasonality.

The Association has no lines of credit outstanding with third parties as of June 30, 2010.

CAPITAL RESOURCES

Total members' equity at June 30, 2010, increased 12.53 percent to \$167,138 from the December 31, 2009, total of \$148,530. The increase is attributed to the increase in retained earnings and capital stock. Total capital stock and participation certificates were \$27,480 on June 30, 2010, as compared to \$18,340 on December 31, 2009. The increase in capital stock resulted primarily from an increase in preferred stock. As of June 30, 2010 the Association had \$24,362 of preferred stock outstanding as compared to \$15,260 as of 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 total surplus ratio and core surplus ratio were both 14.56 percent, and the permanent capital ratio was 17.45 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. 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 1-919-250-9500, 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

<i>(dollars in thousands)</i>	June 30, 2010	December 31, 2009
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash	\$ 1,325	\$ 3,272
Loans	869,155	836,369
Less: allowance for loan losses	9,970	9,682
Net loans	859,185	826,687
Other investments	55,011	66,944
Accrued interest receivable	10,774	14,006
Investment in other Farm Credit institutions	14,248	14,423
Premises and equipment, net	8,605	8,247
Other property owned	1,526	515
Due from AgFirst Farm Credit Bank	2,985	6,588
Other assets	9,166	11,343
Total assets	\$ 962,825	\$ 952,025
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 782,316	\$ 780,436
Accrued interest payable	1,951	2,197
Patronage refund payable	215	5,713
Other liabilities	11,205	15,149
Total liabilities	795,687	803,495
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	27,480	18,340
Retained earnings		
Allocated	69,390	69,536
Unallocated	70,268	60,654
Total members' equity	167,138	148,530
Total liabilities and members' equity	\$ 962,825	\$ 952,025

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

AgCarolina Financial, ACA

Consolidated Statements of Income

(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	\$ 10,810	\$ 11,522	\$ 21,236	\$ 23,012
Other	710	858	1,440	1,689
Total interest income	11,520	12,380	22,676	24,701
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	5,933	6,757	11,948	13,828
Net interest income	5,587	5,623	10,728	10,873
Provision for (reversal of allowance for) loan losses	500	1,190	1,000	1,590
Net interest income after provision for (reversal of allowance for) loan losses	5,087	4,433	9,728	9,283
Noninterest Income				
Loan fees	1,013	839	1,937	2,180
Fees for financially related services	177	140	618	271
Equity in earnings of other Farm Credit institutions	1,966	1,646	3,430	3,194
Gains (losses) on other property owned, net	(46)	(6)	(69)	(2)
Gains (losses) on sale of rural home loans, net	—	14	—	18
Insurance Fund refund	—	—	1,091	—
Other noninterest income	1	130	129	185
Total noninterest income	3,111	2,763	7,136	5,846
Noninterest Expense				
Salaries and employee benefits	2,589	2,734	5,294	5,587
Occupancy and equipment	241	292	513	562
Insurance Fund premium	11	366	179	699
Other operating expenses	565	584	1,301	1,410
Total noninterest expense	3,406	3,976	7,287	8,258
Income before income taxes	4,792	3,220	9,577	6,871
Provision (benefit) for income taxes	—	—	—	—
Net income	\$ 4,792	\$ 3,220	\$ 9,577	\$ 6,871

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		Total Members' Equity
		Allocated	Unallocated	
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
Balance at December 31, 2009	\$ 18,340	\$ 69,536	\$ 60,654	\$ 148,530
Net income			9,577	9,577
Capital stock/participation certificates issued/(retired), net	8,922			8,922
Dividends declared/paid	218		(218)	—
Patronage distribution adjustment		(146)	255	109
Balance at June 30, 2010	\$ 27,480	\$ 69,390	\$ 70,268	\$ 167,138

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, 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 4).

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	\$ 9,682	\$ 7,618
Provision for (reversal of) loan losses	1,000	1,590
Charge-offs	(735)	(1,595)
Recoveries	23	24
Balance at end of period	<u>\$ 9,970</u>	<u>\$ 7,637</u>

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

	2010	2009
Impaired loans with related allowance	\$12,739	\$ 2,352
Impaired loans with no related allowance	16,873	12,739
Total impaired loans	<u>29,612</u>	<u>15,091</u>
Allowance on impaired loans	<u>\$ 2,576</u>	<u>\$ 478</u>

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

	2010	2009
Average impaired loans	\$ 27,068	\$ 13,750
Interest income recognized on impaired loans	\$ 150	\$ 99

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	\$ 1,244	\$ 1,219
401(k)	165	179
Other postretirement benefits	216	215
Total	<u>\$ 1,625</u>	<u>\$ 1,613</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	\$ –	\$ 2,106	\$ 2,106
Other postretirement benefits	169	153	322
Total	<u>\$ 169</u>	<u>\$ 2,259</u>	<u>\$ 2,428</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 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities primarily consist of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at June 30, 2010 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, 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 less estimated costs to sell. 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 tables present 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			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in trust funds	\$ 2,276	\$ -	\$ -	\$ 2,276
Assets held in Mutual funds	637	-	-	637
Total Assets	\$ 2,913	\$ -	\$ -	\$ 2,913

Liabilities:				
Deferred Compensation Liabilities	\$ 1,922	\$ -	\$ -	\$ 1,922
Standby letters of credit	\$ -	\$ -	\$ 69	\$ 69
Total Liabilities	\$ 1,922	\$ -	\$ 69	\$ 1,991

	December 31, 2009			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in trust funds	\$ 2,153	\$ -	\$ -	\$ 2,153
Assets held in Mutual funds	594	-	-	594
Total Assets	\$ 2,747	\$ -	\$ -	\$ 2,747

Liabilities:				
Deferred Compensation Liabilities	\$ 1,816	\$ -	\$ -	\$ 1,816
Standby letters of credit	-	-	88	88
Total Liabilities	\$ 1,816	\$ -	\$ 88	\$ 1,904

The following tables present 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 transfer 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	\$ 88
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(19)
Transfers in and/or out of level 3	-
Balance at June 30, 2010	<u>\$ 69</u>

	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	<u>\$ 83</u>

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

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

	June 30, 2010				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 10,223	\$ 10,223	\$ (1,072)
Other property owned	\$ -	\$ -	\$ 1,159	\$ 1,159	\$ (27)

	December 31, 2009				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
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, 2010 and December 31, 2009.

	June 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	\$ 1,325	\$ 1,325	\$ 3,272	\$ 3,272
Loans, net of allowance	\$ 859,185	\$ 876,209	\$ 826,687	\$ 849,122
Tobacco Buyout SIIC	\$ 55,011	\$ 59,749	\$ 66,944	\$ 71,423
Assets held in trust funds	\$ 2,153	\$ 2,153	\$ 2,153	\$ 2,153
Assets held in Mutual funds	\$ 637	\$ 637	\$ 594	\$ 594
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 782,316	\$ 798,939	\$ 780,436	\$ 801,243
Deferred Compensation Liability	\$ 1,922	\$ 1,922	\$ 1,816	\$ 1,816

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 3.74 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.
- 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 and has determined there are none requiring disclosure through August 6, 2010, which is the date the financial statements were issued.