

THIRD QUARTER 2009

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 September 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
Chief Executive Officer



David W. Corum
Chief Financial Officer



Dick Tunnell
Chairman of the Board

October 13, 2009

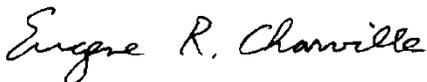
Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2009. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of September 30, 2009, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2009.



Eugene R. Charville
Chief Executive Officer



David Corum
Chief Financial Officer

October 13, 2009

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgCarolina Financial (Association) for the nine months ended September 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 \$510,602, or 57 percent, of the loan portfolio as of September 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 September 30, 2009, was \$882,091, an increase of \$50,570 or 6.08 percent as compared to \$831,521 at December 31, 2008. Net loans accounted for 88.38 percent of total assets at September 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 \$14,956 at September 30, 2009, for an increase of 24.03 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. The allowance for loan losses at

September 30, 2009 was \$9,139 as compared to \$7,618 at December 31, 2008 and was considered by management to be adequate to cover possible losses. For the nine months ended September 30, 2009 the Association has recognized net loan losses of \$2,070 and subsequently increased the allowance for loan losses by \$3,591 through a provision for loan losses. The ratio of the allowance for loan losses to loans at September 30, 2009 was 1.03 percent, as compared to .91% as of December 31, 2008.

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 September 30, 2009 the Association held tobacco buyout SIIC of \$63,689, a decrease of \$6,938 or 9.82%, 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 September 30, 2009

Net income for the three months ended September 30, 2009 totaled \$3,206, a decrease of \$1,259, or 28.20 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 \$1,251 over the same period in 2008. For the quarter ended September 30, 2009, total interest income decreased by \$2,369 compared to September 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 \$80 for the three months ended September 30, 2009, an increase of \$47 from the same period of 2008. Interest expense decreased \$2,574 for the three months ended September 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 September 30, 2009 totaled \$3,064 as compared to \$2,781 for the same period of 2008, an increase of \$283. The increase is

primarily due to an increase in fees for financially related services, and from other income.

Noninterest expense for the three months ended September 30, 2009 was \$3,884, an increase of \$489 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 \$2,604 for the three months ended September 30, 2009, for an increase of \$528, or 25.43 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 nine months ended September 30, 2009

Net income for the nine months ended September 30, 2009 totaled \$10,077, a decrease of \$3,848, or 27.63 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 \$3,591. At September 30, 2009, total interest income decreased by \$7,284 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 \$177 as of September 30, 2009, an increase of \$41 from the same period of 2008. Interest expense decreased \$7,363 for the first nine 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 nine months ended September 30, 2009 totaled \$8,910 as compared to \$8,401 for the same period of 2008, an increase of \$509. The increase is primarily due to an increase in equity in earnings of other Farm Credit institutions, fees from financially related services, and from other income.

Noninterest expense for the nine months ended September 30, 2009 was \$12,142, an increase of \$1,590 as compared to the same period of 2008. The major component of noninterest expense is salaries and employee benefits. Salaries and employee benefits totaled \$8,191 for the nine months ended September 30, 2009, for an increase of \$1,567 or 23.66 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 September 30, 2009 was \$833,502 as compared to \$799,323 at December 31, 2008. The 4.28 percent increase during the period is primarily attributed to seasonal lending. The Association has no lines of credit outstanding with third parties as of September 30, 2009.

CAPITAL RESOURCES

Total members' equity at September 30, 2009, increased 13.08 percent to \$150,620 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 \$19,314 on September 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 September 30, 2009 the Association had \$16,250 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 September 30, 2009, the Association's total surplus ratio and core surplus ratio were both 12.57 percent, and the permanent capital ratio was 14.44 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

<i>(dollars in thousands)</i>	September 30, 2009 <i>(unaudited)</i>	December 31, 2008 <i>(audited)</i>
Assets		
Cash	\$ 948	\$ 1,775
Loans	891,230	839,139
Less: allowance for loan losses	9,139	7,618
Net loans	882,091	831,521
Other investments	63,689	70,627
Accrued interest receivable	16,320	17,371
Investment in other Farm Credit institutions	13,542	13,542
Premises and equipment, net	8,160	8,347
Other property owned	—	252
Due from AgFirst Farm Credit Bank	4,928	6,330
Other assets	8,365	10,114
Total assets	\$ 998,043	\$ 959,879
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 833,502	\$ 799,323
Accrued interest payable	2,253	2,736
Patronage refund payable	76	6,592
Other liabilities	11,592	18,034
Total liabilities	847,423	826,685
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	19,314	11,727
Retained earnings		
Allocated	62,060	61,465
Unallocated	69,246	60,002
Total members' equity	150,620	133,194
Total liabilities and members' equity	\$ 998,043	\$ 959,879

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 September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Interest Income				
Loans	\$ 12,076	\$ 14,398	\$ 35,088	\$ 42,179
Other	874	921	2,563	2,756
Total interest income	12,950	15,319	37,651	44,935
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,924	9,498	20,752	28,115
Total interest expense	6,924	9,498	20,752	28,115
Net interest income	6,026	5,821	16,899	16,820
Provision for (reversal of allowance for) loan losses	2,001	750	3,591	750
Net interest income after provision for (reversal of allowance for) loan losses	4,025	5,071	13,308	16,070
Noninterest Income				
Loan fees	556	612	2,736	2,949
Fees for financially related services	664	489	935	724
Equity in earnings of other Farm Credit institutions	1,748	1,714	4,942	4,639
Gains (losses) on other property owned, net	(42)	—	(44)	—
Gains (losses) on sale of rural home loans, net	2	6	20	30
Other noninterest income	136	(40)	321	59
Total noninterest income	3,064	2,781	8,910	8,401
Noninterest Expense				
Salaries and employee benefits	2,604	2,076	8,191	6,624
Occupancy and equipment	280	257	842	798
Insurance Fund premium	393	299	1,092	892
Other operating expenses	607	763	2,017	2,238
Total noninterest expense	3,884	3,395	12,142	10,552
Income before income taxes	3,205	4,457	10,076	13,919
Provision (benefit) for income taxes	(1)	(8)	(1)	(6)
Net income	\$ 3,206	\$ 4,465	\$ 10,077	\$ 13,925

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

AgCarolina Financial, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2007	\$ 12,092	\$ 56,644	\$ 58,446	\$ 127,182
Net income			13,925	13,925
Capital stock/participation certificates issued/(retired), net	1,975			1,975
Dividends declared/paid	280		(280)	
Patronage distribution adjustment		26	(44)	(18)
Balance at September 30, 2008	<u>\$ 14,347</u>	<u>\$ 56,670</u>	<u>\$ 72,047</u>	<u>\$ 143,064</u>
Balance at December 31, 2008	\$ 11,727	\$ 61,465	\$ 60,002	\$ 133,194
Net income			10,077	10,077
Capital stock/participation certificates issued/(retired), net	7,346			7,346
Dividends declared/paid	241		(241)	-
Patronage distribution adjustment		595	(592)	3
Balance at September 30, 2009	<u>\$ 19,314</u>	<u>\$ 62,060</u>	<u>\$ 69,246</u>	<u>\$ 150,620</u>

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 third quarter 2009 consolidated financial statements should be read in conjunction with the 2008 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30, 2009, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In addition to the recently issued accounting pronouncements discussed in the 2008 Annual Report to Shareholders, effective January 1, 2009, the Association adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures (see Note 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 Financial Accounting Standards Board (FASB) issued guidance, "Interim Disclosures about Fair Value of Financial Instruments." This guidance requires disclosures about fair value of financial instruments for interim reporting

periods of publicly traded companies as well as in annual financial statements. The Association adopted this guidance effective June 30, 2009 (see Note 5).

In May 2009, the FASB issued guidance, "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be included in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not included in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was adopted by the Association effective June 30, 2009 (see Note 6).

In June 2009, the FASB issued guidance, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This Codification became the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. This guidance was adopted by the Association effective July 1, 2009 and had no impact on the Association's financial condition or results of operations.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,	
	2009	2008
Balance at beginning of period	\$ 7,618	\$ 6,877
Provision for (reversal of) loan losses	3,591	750
Charge-offs	(2,096)	(769)
Recoveries	26	8
Balance at end of period	<u>\$ 9,139</u>	<u>\$ 6,866</u>

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

	<u>2009</u>	<u>2008</u>
Impaired loans with related allowance	\$ 2,369	\$ 4,138
Impaired loans with no related allowance	12,596	4,419
Total impaired loans	<u>14,965</u>	<u>8,557</u>
Allowance on impaired loans	<u>\$ 1,506</u>	<u>\$ 1,252</u>

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

	<u>2009</u>	<u>2008</u>
Average impaired loans	\$ 14,125	\$ 4,807
Interest income recognized on impaired loans	\$ 180	\$ 172

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the nine months ended September 30,	
	<u>2009</u>	<u>2008</u>
Pension	\$ 1,828	\$ 336
401(k)	255	270
Other postretirement benefits	323	300
Total	<u>\$ 2,406</u>	<u>\$ 906</u>

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

	Actual YTD Through 9/30/09	Projected Contributions For Remainder of 2009	Projected Total Contributions 2009
Other postretirement benefits	<u>\$ 239</u>	<u>\$ 133</u>	<u>\$ 372</u>

As of September 30, 2009, no contributions have been made for 2009 by the Association to the qualified District pension plan in which the Association participates. Actuarial calculations as of the last plan measurement date (December 31, 2008) projected total contributions of \$52.0 million to the qualified District pension plan for all participating institutions for 2009. The funding policy for this plan is to fund the accumulated benefit obligation (ABO) service cost plus the seven year amortization of the unfunded ABO using the discount rate determined as of December 31st of the preceding year. This aggregate contribution will be allocated to the participating District institutions, including the Association, based upon each institution's pro rata share of ABO service cost. Market conditions could impact discount rates and return on plan assets which could make additional

contributions necessary before the next plan measurement date of December 31, 2009.

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

NOTE 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 September 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 September 30, 2009 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principle balance of the loan, a specific reserve is established. Other property owned is classified as a level 3 asset at September 30, 2009. The fair value for other property owned is based upon the collateral less estimated costs to sell. Level 3 liabilities at September 30, 2009 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at September 30, 2009 for each of the fair value hierarchy levels:

	September 30, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 2,121	\$ -	\$ -	\$ 2,121
Assets held in Mutual funds	\$ 602	\$ -	\$ -	\$ 602
Total Assets	\$ 2,723	\$ -	\$ -	\$ 2,723
Liabilities:				
Deferred Compensation Liabilities	\$ 1,784	\$ -	\$ -	\$ 1,784
Standby letters of credit	\$ -	\$ -	\$ 101	\$ 101
Total Liabilities	\$ 1,784	\$ -	\$ 101	\$ 1,885

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	20
Transfers in and/or out of level 3	-
Balance at September 30, 2009	\$ 101

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

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

	September 30, 2009				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 852	\$ 852	\$ (1,917)
Other property owned	\$ -	\$ -	\$ -	\$ -	\$ (36)

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 September 30, 2009.

	September 30, 2009	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	\$ 948	\$ 948
Loans, net of allowance	\$ 882,091	\$ 905,583
Tobacco Buyout SIIC	\$ 63,689	\$ 68,676
Assets held in trust funds	\$ 2,121	\$ 2,121
Assets held in Mutual funds	\$ 602	\$ 602
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	\$ 833,502	\$ 854,727
Deferred Compensation Liability	\$ 1,784	\$ 1,784

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 3.55 percent of the issued stock of the Bank as of September 30, 2009 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.8 billion and shareholders' equity totaled \$1.60 billion. The Bank's earnings were \$194.0 million during the first nine 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 and has determined there are none requiring disclosure through November 3, 2009, which is the date the financial statements were available to be issued.