AgFirst Farm Credit Bank
& District Associations

Quarterly Report

Third Quarter 2009

THIRD QUARTER 2009

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2009 quarterly report of AgFirst Farm Credit Bank and District Associations, 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.

Paul M House

Paul M. House
Chairman of the Board

F. A. Lowrey

F. A. Lowrey
Chief Executive Officer

Charl L Butler

Charl L. Butler
Chief Financial Officer

October 30, 2009

Report on Internal Control Over Financial Reporting

AgFirst Farm Credit Bank (Bank) and each affiliated District Agricultural Credit Association's (District Association) 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 Bank and each District Association's respective 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 Bank and each District 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 respective 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 Bank and each District 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 Bank and each District Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank and each District Association's assets that could have a material effect on its Consolidated Financial Statements.

The Bank and each District 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 Bank and each District 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 Bank and each District Association determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2009.

F. A. Lowrey

F.A. Lowrey
Chief Executive Officer

Charl L. Butler

Charl L. Butler
Chief Financial Officer

October 30, 2009

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, as of and for the three and nine month periods ended September 30, 2009. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2008 Annual Report of AgFirst Farm Credit Bank and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

As of September 30, 2009, the District consisted of AgFirst and twenty-two District Associations. Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. However, neither the three months' nor the nine months' results of operations may be indicative of an entire year due to the seasonal nature of a portion of the District's business.

FINANCIAL CONDITION

Loan Portfolio

Total loans outstanding were $23.313 billion at September 30, 2009, an increase of $234.9 million, or 1.02 percent, compared to total loans outstanding at December 31, 2008. In late 2008, the District's loan demand slowed dramatically. This trend has continued into 2009, resulting in no material change in total loans outstanding over the latest twelve month period.

The downturn in the general economy has been the primary cause of the weak overall loan demand. Although future loan demand is difficult to predict, the growth rate of the loan portfolio is anticipated to remain at a very moderate level for at least the remainder of 2009 and beginning of 2010.

Credit quality at September 30, 2009 reflected continued deterioration compared to prior reporting periods as shown in the table below. The continued weakness in the financial markets, farm commodity price levels, weaker demand for some agricultural products, and the generally weaker economy have affected the overall farm sector and some of AgFirst's customers. The trend of loans migrating to more adverse classifications continued during the first nine months of 2009 and some additional deterioration is possible.

The following table summarizes the credit quality classifications of the District's loan portfolio at September 30, 2009, and selected prior periods.

Credit Quality as of:			
Classification	**September 30, 2009**	**December 31, 2008**	**September 30, 2008**
Acceptable	88.04%	92.23%	93.84%
OAEM *	5.60%	3.88%	3.39%
Substandard	6.32%	3.89%	2.71%
Doubtful/loss	0.04%	0.00%	0.06%

* *Other Assets Especially Mentioned*

The recession in the general economy and resulting higher rate of unemployment could further compromise the credit quality of part-time farmers. Many borrowers who have historically had stable income from non-farm sources have seen dramatic reductions in these income sources. The District is routinely reevaluating the credit-worthiness of these borrowers and anticipates that continued weakness in the general economy could further affect credit quality during the remainder of 2009.

Credit quality deterioration has been caused by a number of different factors. The primary factors were higher input costs for the meat and ethanol sectors, over supply for the swine and dairy sectors, and the restrictive effects of the recession on housing and unemployment. Many meat and ethanol sector producers contracted for grain at or near the peak in commodity prices in the third quarter of 2008, which in some cases has adversely affected their operating margins through the first nine months of 2009. The swine industry produced more pork than the domestic and international markets would absorb. The over production was the result of an expansion in sow facilities in 2007 and 2008 and the development of a vaccine for the porcine circovirus that improved herd health and resulted in more pigs per litter. Demand for pork immediately declined when the H1N1 flu virus was tagged as the "swine flu", further contributing to the oversupply. Similarly, the dairy industry produced more milk than was needed in the domestic market and exports continue to be severely impacted by the global recession. Industries tied to housing, such as forestry, sawmills, sod, and landscape nurseries, continue to be impacted by the declining housing construction activity and weakness in the general economy. The global economic slowdown, as well as recent trade restrictions put in place by China, could lessen demand for agricultural exports. Declining exports and the negative factors discussed above, could impact the profitability of certain sectors of production agriculture for the remainder of the year. Early indications are that the rate of credit quality decline has slowed. However, a rapid recovery in credit quality is not anticipated.

The ethanol industry has experienced stress due to rapidly changing commodity prices, especially corn, declining fuel consumption, and excess production capacity. This combination of factors has forced a number of ethanol producers into bankruptcy and is resulting in consolidation in the industry. The District had minimal exposure to the ethanol industry at September 30, 2009 with only 1.03 percent of total loans outstanding related to ethanol. Also, a significant portion of the District's other property owned consists of ownership interests in ethanol production facilities, as discussed in the *Nonaccrual Loans, Other Property Owned, and Allowance for Loan Losses* section below.

Loan portfolio credit quality was also adversely affected by deteriorating general economic conditions, including lower real estate values in certain geographic areas included in the Bank's and District's footprint, particularly Florida. The Florida economy slowed after an extended period of significant growth led by increasing real estate values and net population inflows. In 2008, real estate values declined, population growth slowed, and housing foreclosures increased. These conditions have continued into 2009.

Overall, credit quality for the District has declined as reflected by past-due loans, asset quality, and non-earning assets. The possibility exists for future deterioration as mentioned above. The District employs a number of risk management techniques to limit credit risk. Overall underwriting standards and limits on the amounts of loans purchased from a single originator are also used to manage portfolio risks. The portfolio is diversified both geographically and on a commodity basis. Concentration risk throughout the portfolio is mitigated through established maximum hold positions to a single borrower and to a single commodity.

Nonaccrual Loans, Other Property Owned, and Allowance for Loan Losses

Nonaccrual loan assets for the combined District at September 30, 2009, were $860.1 million compared to $551.5 million at December 31, 2008. Nonaccrual loans increased $308.6 million, net of charge-offs and transfers to other property owned, for the nine months ended September 30, 2009 primarily due to six borrower relationships in the ethanol, other real estate, forestry, and swine industries, which in total comprise 26.09 percent of the total nonaccrual loan balance at September 30, 2009. The ten largest nonaccrual loan relationships accounted for 49.32 percent of the total nonaccrual balance at September 30, 2009. These ten largest nonaccrual relationships were classified in the ethanol (21.47 percent of the ten largest total), processing (19.85 percent), forestry (12.20 percent), other real estate (11.31 percent), swine (8.72 percent), cattle (7.99 percent), other (7.41 percent), citrus (6.31 percent), and poultry (4.74 percent) industries. Some of these loans were moved to nonaccrual as a result of transitional agricultural real estate having been negatively impacted by declining real estate values as discussed above. Transitional agricultural real estate is defined as agricultural land usually lying in the path of economic development which results in a land value that cannot be supported solely by agricultural activity. Nonaccrual loans were 3.69 percent of total loans outstanding at September 30, 2009. District management reviews, on an ongoing basis, the District's acceptable level of risk tolerance at the individual loan and portfolio levels. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

Other property owned (OPO) consists primarily of assets once held as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. Traditionally, OPO is primarily in the form of real estate. However, it can also include equipment and equity interests in companies or partnerships. OPO increased $49.5 million during the nine months ended September 30, 2009 and totaled $63.8 million at September 30, 2009. This increase is primarily due to $111.4 million of properties that were transferred into OPO from nonaccrual loans, offset by OPO sales of $61.3 million (primarily $35.7 million of ethanol assets). Ethanol production facilities account for $16.2 million (25.45 percent) of the District's total OPO holdings at September 30, 2009.. Total gains of $10.4 million from five ethanol production facilities disposed of through financed sales during the third quarter of 2009 were deferred and will be recognized in future periods in accordance with accounting guidance. See discussion of OPO expense in the *Noninterest Income* section below.

The District maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio. The allowance for loan losses was $216.0 million at September 30, 2009, as compared with $169.1 million at December 31, 2008. The increase during the nine months ended September 30, 2009 was primarily due to provision expense of $148.9 million (see discussion of provision expense in the *Provision for Loan Losses* section below) off-set by charge-offs of $104.2 million for loan amounts determined to be uncollectible. Charge-offs were primarily related to the ethanol (29.73 percent of the total), citrus (22.20 percent), forestry (19.34 percent) and cattle (10.62 percent) industries. The allowance at September 30, 2009 included specific reserves of $110.1 million primarily related to specific credits for eight borrower relationships (58.29 percent of the total) and $105.9 million of general reserves. The total allowance at September 30, 2009 is primarily comprised of reserves for the forestry (19.46 percent of the total), ethanol (18.53 percent), other real estate (6.33 percent), cattle (5.74 percent), and poultry (5.45 percent) industries. Declining transitional agricultural real estate values impacted charge-offs and reserves in several of the loan classification industries, including forestry, cattle, and citrus. See Note 3, *Allowance for Loan Losses and Impaired Loans,* in the Notes to the Financial Statements for further information.

Liquidity and Funding Sources

One of the primary responsibilities of AgFirst is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. The primary source of funds for AgFirst is the issuance of Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation. At September 30, 2009, the District had $28.268 billion in total debt outstanding compared to $28.253 billion at December 31, 2008. In addition, other interest-bearing liabilities for the District included $225.0 million in Bank Mandatorily Redeemable Preferred Stock in both periods. Total interest-bearing liabilities remained relatively constant primarily due to the moderation in loan volumes as discussed in this report. Despite the recent adversity in the financial debt markets, the Bank continues to have adequate access to funding through the issuance of Farm Credit System debt.

AgFirst maintains a $150.0 million committed line of credit facility obtained from its primary commercial depository bank. The line of credit is tied to AgFirst's master cash management clearing account.

Cash and cash equivalents, which increased $13.6 million from December 31, 2008 to a total of $329.6 million at September 30, 2009, are primarily money market securities that are short term in nature (from overnight maturities to maturities that range up to 90 days). Money market securities must carry one of the two highest short-term ratings from a rating agency.

Investment securities totaled $8.224 billion, or 25.20 percent of total assets at September 30, 2009, compared to $8.167 billion, or 25.20 percent, as of December 31, 2008. Investment securities increased $57.3 million (or 0.70 percent) compared to December 31, 2008, primarily as management maintained the investment securities portfolio size generally proportionate with that of the loan portfolio in order to maintain adequate liquidity.

As of September 30, 2009, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require a liquidity policy that establishes a minimum "coverage" level of 90 days. "Coverage" is defined as the number of days that maturing debt could be funded through the sale of eligible available-for-sale investments, cash, and other highly liquid assets maintained by the Bank. At September 30, 2009, AgFirst's coverage was 141 days. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation of 141 days.

Investment securities classified as being held-to-maturity totaled $1.557 billion at September 30, 2009. These held-to-maturity investments were primarily Rural Housing Mortgage-Backed Securities purchased under a Mission-Related Investment pilot program approved by the FCA in 2005.

Investment securities classified as being available-for-sale totaled $6.668 billion at September 30, 2009. Available-for-sale investments at September 30, 2009 included $3.466 billion in Agency Collateralized Mortgage Obligations (CMOs), $2.721 billion in Agency Adjustable Rate Mortgages, $376.3 million in non-agency CMOs, and $94.1 million in asset-backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

Total net unrealized losses relating to the available-for-sale securities decreased $175.9 million during the nine months ended September 30, 2009 to a total of $181.6 million at September 30, 2009. These net unrealized losses are reflected in Accumulated Other Comprehensive Income (AOCI) in the Combined Financial Statements. The net unrealized losses are primarily attributed to the market dislocation and illiquidity stemming from adversity in the subprime mortgage market. The Bank also recognized credit-related losses of $20.7 million for other-than-temporary impairment during the nine months ended September 30, 2009 on asset-backed securities and non-agency CMO securities in its portfolio as discussed below, which reduced net income.

District available-for-sale asset-backed securities totaled $94.1 million at September 30, 2009. The District has low exposure to investments backed by subprime mortgages. Asset-backed securities with subprime exposure were in the Bank's portfolio only and totaled $53.4 million, which represented 0.81 percent of the District's available-for-sale liquidity investment portfolio and 0.65 percent of the total investment security portfolio at September 30, 2009. The amortized cost of these Bank investment securities totaled $78.5 million and the market value adjustment decrease for asset-backed securities of $25.1 million was included in the total $181.6 million of net unrealized losses reflected in AOCI at September 30, 2009. The District's total asset-backed securities not rated in the highest category (AAA/Aaa) by at least one of the Nationally Recognized Statistical Rating Organizations (NRSROs) at September 30, 2009, totaled $41.3 million (amortized cost value of $65.2 million). Despite the uncertainty in the mortgage securities markets, which has adversely impacted the market value of all asset-backed securities, all but three of these securities, which were held by the Bank and on which there was a $3.5 million payment shortfall during the nine months ended September 30, 2009, continue to perform.

Non-agency CMOs have also experienced significant market pricing volatility. District non-agency CMOs totaled $376.3 million, which represented 5.64 percent of the available-for-sale liquidity investment portfolio and 4.58 percent of the total investment security portfolio at September 30, 2009. The amortized cost of these investment securities totaled $482.1 million and the market value adjustment decrease for non-agency CMOs of $105.8 million was included in the total $181.6 million of net unrealized losses reflected in AOCI at September 30, 2009 as discussed above. The District's non-agency CMO securities not rated in the highest category (AAA/Aaa) by at least one of the NRSROs at September 30, 2009 had a total fair value of $176.0 million and an amortized cost of $232.5 million.

The Farm Credit Administration (FCA) considers asset-backed and mortgage-backed investment securities rated below AAA/Aaa by the NRSROs to be ineligible and requires System institutions to divest of such investments. However, System institutions may seek approval to continue to hold these investments. There was one ineligible security (fair value of $715 thousand and amortized cost of $1.3 million) held by an Association at September 30, 2009. The remainder of the ineligible securities were held by the Bank. For each of the investment securities in the District's portfolio at September 30, 2009 rated below AAA/Aaa (total fair value of $217.3 million and amortized cost of $297.6 million), the Bank and Association have developed and submitted plans for approval by the FCA that provide that the securities may be held to maturity. The FCA has approved with conditions the plans for all except those investments that have recently become ineligible, which the FCA is still in the process of reviewing. For purposes of the permanent capital, total surplus, and core surplus regulatory ratios, certain District ineligible securities at September 30, 2009 are risk weighted 100 percent and 50 percent instead of the standard 20 percent in calculating the risk adjusted assets amount. These ineligible securities had a fair value of $65.4 million and amortized cost of $86.9 million. Other ineligible securities must be deducted completely from both capital and risk adjusted assets, based on the extent of their below investment grade rating from NRSROs. These securities had a fair value of $152.0 million and amortized cost of $210.7 million at September 30, 2009. For purposes of the net collateral ratio, all ineligible investments are stated at lower of cost or market. See the *Capital Resources* section below for further discussion of the regulatory ratios. In addition, all ineligible investments are excluded from liquidity coverage as defined above.

The District performs periodic credit reviews, including other-than-temporary impairment analysis, on its entire investment securities portfolio. Additional analysis for each security not rated in the top category by the NRSROs is performed using a cash flow model with key assumptions and performance factors which may include credit default rate, prepayment rate, and loss severity. The objective is to quantify any future possible loss of principal or interest due on each identified security. The credit enhancements specific to the individual security are considered as appropriate, and may include monoline credit insurance, subordination, over-collateralization and excess interest spread. Asset-backed securities covered by insurers are analyzed with insurance and without, to quantify the extent of reliance on their guarantee. Based on the results of all analyses, the Bank recognized other-than-temporary credit related impairment of $11.9 million and $20.7 million on asset-backed securities and non-agency CMOs in its portfolio for the three and nine month periods ended September 30, 2009, respectively, which were included in Net Impairment Losses on Investments in the Combined Statements of Income. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

For all other investments, the District has not recognized any other-than-temporary impairment as it has determined that the decline in market value was caused primarily by reduced liquidity in the securities markets stemming from the general adversity in the financial and mortgage markets. The District has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities.

For purposes of determining the fair values of the modeled securities and the resulting unrealized gain/ loss impact through AOCI, the Bank considers both a price or “mark” provided by a third party pricing service and also a value determined using the results of a modeling process. The Bank reviews and periodically discusses with the third party pricing services and valuation experts the assumptions used in their pricing models for the asset-backed and non-agency CMO securities impacted by inactive trading or distressed sales. This process ensures that, when relevant observable inputs are not available, the fair value reported for each security fairly reflects the price expected to be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date. The modeling process was factored into the pricing for the asset-backed security and the non-agency CMO security portfolios of the Bank.

New accounting guidance issued by the Financial Accounting Standards Board (FASB) in April 2009 impacted the amount of security impairment exposure and the overall valuation of the Bank’s security portfolio at September 30, 2009. See Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements,* Note 2, *Investment Securities*, and Note 4, *Fair Value Measurement,* in the Notes to the Financial Statements for further information.

Capital Resources

Total District shareholders’ equity increased $367.5 million from December 31, 2008 to September 30, 2009. This 11.77 percent net increase is primarily attributed to an increase in unallocated retained earnings from net income of $230.9 million, a decrease of $175.9 million in unrealized losses on investments available-for-sale, a component of AOCI, a decrease of $21.5 million in AOCI for SFAS 158 employee benefit plans adjustments offset by retained earnings retired of $50.3 million. As of September 30, 2009, AgFirst and each of the District Associations exceeded the applicable minimum permanent capital, core surplus, total surplus, and net collateral ratio requirements established by FCA Regulations.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2009 was $94.6 million, compared to $120.7 million at September 30, 2008, a decrease of $26.1 million, or 21.63 percent. For the nine months ended September 30, 2009, net income was $230.9 million, compared to $314.3 million at September 30, 2008, a decrease of $83.4 million, or 26.55 percent. The overall decreases are discussed below.

Net Interest Income

Net interest income for the three months ended September 30, 2009 was $237.3 million compared to $210.5 million for the same period of 2008, an increase of $26.8 million or 12.74 percent. For the nine months ended September 30, 2009, net interest income was $679.5 million, compared to $601.8 million, at September 30, 2008, an increase of $77.7 million, or 12.91 percent. Net interest margin was 2.93 percent and 2.84 percent in the current year three and nine month periods respectively, an improvement of 26 basis points and 16 basis points over the same periods of 2008. Spreads improved as called debt was replaced by new debt issued at a lower rate of interest thereby increasing net interest income. Loan pricing compared to the underlying cost of funds also improved during the 2009 period. Change in net interest income due to the change in balance sheet volume was very minimal as a result of very limited loan growth as previously discussed.

The following table illustrates the changes in net interest income:

	For the three months ended September 30, 2009 vs. September 30, 2008			**For the nine months ended September 30, 2009 vs. September 30, 2008**		
	Increase (decrease) due to changes in:			**Increase (decrease) due to changes in:**		
(dollars in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Income:						
Loans	$ 6,618	$ (62,140)	$ (55,522)	$ 57,130	$ (210,155)	$ (153,025)
Investments & Cash Equivalents	4,386	(33,116)	(28,730)	25,755	(108,497)	(82,742)
Total Interest Income	$ 11,004	$ (95,256)	$ (84,252)	$ 82,885	$ (318,652)	$ (235,767)
Interest Expense:						
Interest-Bearing Liabilities	$ 4,922	$ (115,990)	$ (111,068)	$ 49,671	$ (363,132)	$ (313,461)
Changes in Net Interest Income	$ 6,082	$ 20,734	$ 26,816	$ 33,214	$ 44,480	$ 77,694

Provision for Loan Losses

The provision for loan losses was $50.1 million and $148.9 million for the three and nine month periods ended September 30, 2009, compared to $18.7 million and $55.0 million for the same periods in 2008. Provision expense for the three month period ended September 30, 2009 was primarily specific reserve increases for four borrower relationships and general reserve increases for the ethanol and dairy industries. The net provision expense of $50.1 million was primarily due to loans classified in the ethanol (36.26 percent of the total), other real estate (12.02 percent), swine (10.10 percent), and forestry (9.60 percent) industries.

Provision expense for the nine months ended September 30, 2009 was primarily specific reserve increases for eight borrower relationships, a reversal of a specific reserve for one borrower relationship, and general reserve increases for the forestry and ethanol industries. The net provision expense of $148.9 million was primarily due to loans classified in the ethanol (32.61 percent of the total), forestry (17.92 percent), citrus (7.26 percent) industries and other real estate (6.93 percent). As mentioned previously, declining transitional agricultural real estate values were, in part, the reason for some of the provision expense recognized by the District. See Note 3, *Allowance for Loan Losses and Impaired Loans,* in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2009**	**2008**	**Increase/ (Decrease)**	**2009**	**2008**	**Increase/ (Decrease)**
Loan fees	$ 10,316	$ 7,945	$ 2,371	$ 34,036	$ 32,224	$ 1,812
Fees for financially related services	4,389	4,146	243	7,909	7,102	807
Gains (losses) from other property owned, net	(807)	197	(1,004)	(5,139)	(488)	(4,651)
Gains (losses) on investments, net	8,425	-	8,425	8,425	(71)	8,496
Net impairment losses on investments	(11,890)	-	(11,890)	(20,721)	-	(20,721)
Gains (losses) on derivatives, net	183	(54)	237	488	(54)	542
Gains (losses) on sale of rural home loans, net	433	349	84	1,785	1,502	283
Gains from sale of premises and equipment, net	751	1,111	(360)	1,270	1,869	(599)
Patronage refunds from other Farm Credit institutions	794	499	295	1,957	1,412	545
Other noninterest income	2,595	1,089	1,506	7,250	3,790	3,460
Total noninterest income	$ 15,189	$ 15,282	$ (93)	$ 37,260	$ 47,286	$ (10,026)

Noninterest income for the three months ended September 30, 2009 was $15.2 million, which reflected a decrease of $93 thousand, compared to the same period in 2008. For the nine months ended September 30, 2009, noninterest income was $37.3 million, which reflected a decrease of $10.0 million compared to the corresponding period in 2008. The decrease for both the three and nine month periods was primarily due to the recognition of credit related other-than-temporary impairment on several of the Bank's investment securities of $11.9 million and $20.7 million respectively, as discussed above. Also, expenses, including legal and appraisal fees, associated with OPO have increased significantly during 2009 due to the acquisition of such properties by the District as discussed above. The gains on investments during the third quarter of 2009 arose from sales by the Bank to achieve certain portfolio limits and liquidity parameters. Noninterest income also benefitted from an increase in loan fees. The increase in other noninterest income was primarily due to a 2008 captive insurance allocated savings, based on claims experience, recorded in the first quarter of 2009, gains incurred on investments which fund the non-qualified pension plans, higher income from outside sources for services to other Farm Credit System entities, and a gain from the Bank's termination of its captive mortgage insurance program.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2009**	**2008**	**Increase/ (Decrease)**	**2009**	**2008**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 60,342	$ 47,343	$ 12,999	$ 182,512	$ 144,146	$ 38,366
Occupancy and equipment	8,924	8,449	475	26,111	25,997	114
Insurance Fund premium	12,249	9,079	3,170	36,134	24,488	11,646
Other operating expenses	18,803	20,287	(1,484)	56,770	59,964	(3,194)
Called debt expense	4,597	612	3,985	27,893	22,485	5,408
Correspondent lending servicing expense	764	1,221	(457)	4,260	2,615	1,645
Other noninterest expense	70	69	1	209	208	1
Total noninterest expense	$ 105,749	$ 87,060	$ 18,689	$ 333,889	$ 279,903	$ 53,986

Noninterest expense for the three months ended September 30, 2009 was $105.7 million, which reflected an increase of $18.7 million compared to the corresponding period in 2008. For the nine months ended September 30, 2009 noninterest expense was $333.9 million, which reflected an increase of $54.0 million compared to the corresponding period in 2008.

Salaries and employee benefits increased $13.0 million (27.46 percent) and $38.4 million (26.62 percent) for the three and nine month periods primarily due to increased pension expense resulting from a decrease in the expected return on plan assets and an increase in the amount of actuarial losses amortized for 2009 for the District plans. See Note 7, *Employee Benefit Plans*, in the Notes to the Financial Statements, for further information.

The Insurance Fund premium increased $3.2 million (34.92 percent) and $11.6 million (47.56 percent) for the three and nine month periods primarily due to the change in assessment of Insurance Fund premiums. Effective July 1, 2008, the base on which Insurance Fund premiums are assessed was expanded from total loans to total system debt. Also, the annual premium rate, which was 15 basis points for the first nine months of 2008, was increased to 20 basis points for 2009.

Called debt expense increased $4.0 million (651.14 percent) for the three month period as call options were exercised on bonds totaling $4.5 billion during the third quarter of 2009 and the remaining $4.6 million of concession (debt issuance costs) for these bonds were expensed. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Called debt activity is expected to be less significant for the remainder of the year.

The increase in correspondent lending services expense of $1.6 million (62.91 percent) for the nine month period was primarily due to higher guarantee fees from increased volume in the correspondent lending portfolio.

Other noninterest expense consists of amortization of the Bank's mandatorily redeemable preferred stock issuance costs.

Key results of operations comparisons:

	Annualized for the nine months ended September 30, 2009	**For the year ended December 31, 2008**	**Annualized for the nine months ended September 30, 2008**
Return on average assets	0.95%	1.17 %	1.36%
Return on average shareholders' equity	9.27%	10.07 %	11.66%
Net interest income as a percentage of average earning assets	2.84%	2.66 %	2.68%
Net (charge-offs) recoveries to average loans	(0.60)%	(0.14)%	(0.089)%

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Combined Financial Statements, and the 2008 Annual Report of AgFirst Farm Credit Bank and District Associations for recently issued accounting pronouncements.

NOTE: Shareholder investment in a District Association is materially 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, Controller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank's website, *www.agfirst.com*. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Combined Balance Sheets

(dollars in thousands)	September 30, 2009	December 31, 2008
	(unaudited)	(audited)
Assets		
Cash and cash equivalents	$ 329,626	$ 316,010
Investment securities:		
Available for sale (amortized cost of $6,849,379 and $6,648,869 respectively)	6,667,777	6,291,327
Held to maturity (fair value of $1,608,126 and $1,907,489 respectively)	1,556,575	1,875,699
Total investment securities	8,224,352	8,167,026
Loans	23,312,661	23,077,736
Less: allowance for loan losses	215,981	169,090
Net loans	23,096,680	22,908,646
Loans held for sale	5,331	1,831
Other investments	357,600	410,249
Accrued interest receivable	239,388	235,080
Investments in other Farm Credit System institutions	20,107	19,822
Premises and equipment, net	129,347	126,850
Other property owned	63,773	14,228
Other assets	176,444	212,688
Total assets	$ 32,642,648	$ 32,412,430
Liabilities		
Bonds and notes	$ 28,268,052	$ 28,253,023
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividend payable	97,641	154,555
Dividends and patronage refunds payable	11,906	103,187
Pension and other postretirement benefits liability	396,777	374,355
Advanced conditional payments	9,431	21,177
Deferred tax liabilities, net	4	7
Other liabilities	144,660	159,400
Total liabilities	29,153,471	29,290,704
Commitments and contingencies (Note 6)	—	—
Shareholders' Equity		
Perpetual preferred stock	400,000	400,000
Protected borrower equity	4,287	4,670
Capital stock and participation certificates	138,041	129,529
Retained earnings		
Allocated	1,079,510	1,126,994
Unallocated	2,400,666	2,191,324
Accumulated other comprehensive income (loss)	(533,327)	(730,791)
Total shareholders' equity	3,489,177	3,121,726
Total liabilities and equity	$ 32,642,648	$ 32,412,430

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2009	For the three months ended September 30, 2008	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008
Interest Income				
Investment securities	$ 50,417	$ 78,501	$ 155,004	$ 235,675
Loans	309,938	365,460	940,977	1,094,002
Other	4,780	5,426	14,192	16,263
Total interest income	365,135	449,387	1,110,173	1,345,940
Interest Expense	127,818	238,886	430,670	744,131
Net interest income	237,317	210,501	679,503	601,809
Provision for (reversal of) loan losses	50,071	18,736	148,870	55,040
Net interest income after provision for (reversal of) loan losses	187,246	191,765	530,633	546,769
Noninterest Income				
Loan fees	10,316	7,945	34,036	32,224
Fees for financially related services	4,389	4,146	7,909	7,102
Gains (losses) from other property owned, net	(807)	197	(5,139)	(488)
Gains (losses) on investments, net	8,425	—	8,425	(71)
Impairment losses on investments (Note 2)	(36,898)	—	(59,032)	—
Noncredit-related losses on investments not expected to be sold (recognized in other comprehensive income) (Note 2)	25,008	—	38,311	—
Net impairment losses on investments	(11,890)	—	(20,721)	—
Gains (losses) on derivatives, net	183	(54)	488	(54)
Gain (loss) on sale of rural home loans	433	349	1,785	1,502
Gains from sale of premises and equipment, net	751	1,111	1,270	1,869
Patronage refunds from other Farm Credit institutions	794	499	1,957	1,412
Other noninterest income	2,595	1,089	7,250	3,790
Total noninterest income	15,189	15,282	37,260	47,286
Noninterest Expenses				
Salaries and employee benefits	60,342	47,343	182,512	144,146
Occupancy and equipment	8,924	8,449	26,111	25,997
Insurance Fund premiums	12,249	9,079	36,134	24,488
Other operating expenses	18,803	20,287	56,770	59,964
Called debt expense	4,597	612	27,893	22,485
Correspondent lending servicing expense	764	1,221	4,260	2,615
Other noninterest expense	70	69	209	208
Total noninterest expenses	105,749	87,060	333,889	279,903
Income before income taxes	96,686	119,987	234,004	314,152
Provision (benefit) for income taxes	2,058	(752)	3,149	(144)
Net income	$ 94,628	$ 120,739	$ 230,855	$ 314,296

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2007	$ 400,000	$ 5,369	$ 127,147	$ 1,068,756	$ 2,118,390	$ (153,588)	$ 3,566,074
Comprehensive income							
Net income					314,296		314,296
Unrealized gains (losses) on investments available for sale						(162,283)	(162,283)
Employee benefit plans adjustments					(5,013)	6,720	1,707
Total comprehensive loss							153,720
Protected borrower equity retired		(653)					(653)
Capital stock/participation certificates issued/(retired), net			4,509				4,509
Dividends declared/paid			508		(508)		—
Mandatorily redeemable preferred stock dividends accrued							—
Perpetual preferred stock dividends paid					(13,706)		(13,706)
Patronage distribution							
Cash					(13,627)		(13,627)
Allocated retained earnings				63	(63)		—
Retained earnings retired				(70,307)			(70,307)
Patronage distribution adjustment				151	(3,130)		(2,979)
Balance at September 30, 2008	$ 400,000	$ 4,716	$ 132,164	$ 998,663	$ 2,396,639	$ (309,151)	$ 3,623,031
Balance at December 31, 2008	$ 400,000	$ 4,670	$ 129,529	$ 1,126,994	$ 2,191,324	$ (730,791)	$ 3,121,726
Comprehensive income							
Net income					230,855		230,855
Unrealized gains (losses) on investments available for sale:							
Other-than-temporarily impaired (Note 2)						(38,311)	
Temporarily impaired (Note 2)						217,725	
Total unrealized gains (losses) on investments available for sale							179,414
Employee benefit plans adjustments						21,524	21,524
Total comprehensive income							431,793
Protected borrower equity retired		(383)					(383)
Capital stock/participation certificates issued/(retired), net			8,085				8,085
Dividends declared/paid			427		(427)		—
Perpetual preferred stock dividends paid					(13,706)		(13,706)
Patronage distribution							
Cash					(8,903)		(8,903)
Retained earnings retired				(50,327)			(50,327)
Cumulative-effect adjustment for investment impairment accounting change (Note 2)					3,474	(3,474)	—
Patronage distribution adjustment				2,843	(1,951)		892
Balance at September 30, 2009	$ 400,000	$ 4,287	$ 138,041	$ 1,079,510	$ 2,400,666	$ (533,327)	$ 3,489,177

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2009	2008
Cash flows from operating activities:		
Net income	$ 230,855	$ 314,296
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	14,032	14,545
Amortization of net deferred loan origination (fees) costs	(8,423)	(7,801)
Premium amortization/discount accretion on investment securities	(2,162)	(10,072)
Premium amortization/discount accretion on bonds and notes	10,309	7,700
Provision for (reversal of) loan losses	148,870	55,040
(Gains) losses on other property owned	5,139	488
(Gains) losses from sale of premises and equipment, net	(1,270)	(1,869)
Net impairment losses on investment	20,721	—
(Gains) losses on investments, net	(8,425)	71
(Gains) losses on derivatives, net	(488)	54
Gains (losses) on sales of rural home loans, net	(1,785)	(1,502)
Net change in loans held for sale	34,531	22,499
(Increase) decrease in accrued interest receivable	(4,308)	(28,304)
(Increase) decrease in deferred tax assets, net	—	(57)
(Decrease) increase in deferred tax liabilities, net	(3)	—
(Increase) decrease in other assets	(4,094)	(6,051)
Increase (decrease) in accrued interest payable	(56,914)	10,923
Increase (decrease) in pension and other postretirement benefits liability	22,422	7,666
Increase (decrease) in other liabilities	(10,114)	(29,517)
Total adjustments	158,038	33,813
Net cash provided by (used in) operating activities	388,893	348,109
Cash flows from investing activities:		
Investment securities purchased	(1,923,796)	(2,622,169)
Investment securities sold or matured	1,948,805	1,415,615
Net (increase) decrease in loans	(356,788)	(2,416,370)
(Increase) decrease in investments in other Farm Credit System institutions	(285)	(10,809)
(Increase) decrease in restricted cash	—	(11,000)
Purchases of other investments	(10,977)	(24,203)
Proceeds from payments received on other investment	77,818	72,101
Purchase of premises and equipment, net	(16,895)	(17,818)
Proceeds from sale of premises and equipment, net	1,636	1,993
Proceeds from sale of other property owned	27,377	2,812
Net cash provided by (used in) investing activities	(253,105)	(3,609,848)
Cash flows from financing activities:		
Bonds and notes issued	81,605,716	85,884,062
Bonds and notes retired	(81,560,519)	(82,766,910)
Net increase (decrease) in advanced conditional payments	(11,746)	(6,311)
Protected borrower equity retired	(383)	(653)
Capital stock and participation certificates issued/retired, net	8,085	4,509
Patronage refunds and dividends paid	(99,292)	(132,602)
Dividends paid on perpetual preferred stock	(13,706)	(13,706)
Retained earnings retired	(50,327)	(70,307)
Net cash provided by (used in) financing activities	(122,172)	2,898,082
Net increase (decrease) in cash and cash equivalents	13,616	(363,657)
Cash and cash equivalents, beginning of period	316,010	612,841
Cash and cash equivalents, end of period	$ 329,626	$ 249,184
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 28,521	$ 4,300
Loans transferred to other property owned	110,582	10,878
Investments transferred to loans (Note 1)	91,353	—
Patronage refund and dividends payable	8,903	9,701
Change in unrealized gains (losses) on investments and derivative instruments, net	179,414	(162,283)
Employee benefit plans adjustments	21,524	1,707
Cumulative-effect adjustment for investment impairment accounting change (Note 2)	(3,474)	—
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	$ (40,477)	$ 4,954
Decrease (increase) in other assets	40,338	(5,255)
Increase (decrease) in other liabilities	(488)	244
Supplemental information:		
Interest paid	$ 477,275	$ 725,508
Taxes paid, net	3,313	363

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

Notes to the Combined Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 — ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District. All significant transactions and balances between AgFirst and the District Associations have been eliminated in combination. A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the District as of and for the year ended December 31, 2008 are contained in the 2008 Annual Report to Shareholders. These unaudited third quarter 2009 financial statements should be read in conjunction with the 2008 Annual Report to Shareholders.

The accompanying 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.

There were no reclassifications of amounts in the prior period's financial statements to conform to the current period's financial statement presentation. During the second quarter of 2009, the Bank reclassified certain financial instruments which totaled $91.4 million from investments to loans. These instruments were secondary market acquisitions of either private placement or senior secured notes transacted under the scope of the Bank's lending authority. The reclassification better reflects the nature of these notes and provides for consistent presentation across the Farm Credit System. This reclassification of $91.4 million is reflected as a non-cash item in the Combined Statements of Cash Flows and did not have a significant impact on the Combined Financial Statements or the regulatory ratios.

The District maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance for loan losses reversals and loan charge-offs. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to assure loss exposure to the District has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss. The District considers factors such as credit risk classifications, collateral values, risk concentrations, economic and weather related conditions, among others, when determining the allowance for loan losses.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

Effective January 1, 2009, the District adopted FASB guidance on disclosures about derivative instruments and hedging activities, which amends and expands the disclosure requirements for derivative instruments and for hedging activities. The guidance requires that an entity with derivative instruments shall disclose information to enable users of the financial statements to understand:

a. How and why an entity uses derivative instruments
b. How derivative instruments and related hedged items are accounted for under this Statement and related interpretations
c. How derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

The adoption of this guidance did not have an impact on the financial statements; however, the derivative instruments disclosures have been expanded (see Note 8).

Effective January 1, 2009, the District adopted accounting guidance for fair value measurement 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 District's financial condition or results of operations.

In April 2009, the FASB issued guidance, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." The guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for the fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. The guidance indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The District adopted this guidance effective March 31, 2009 (see Note 2 and Note 4).

In April 2009, the FASB issued guidance, "Recognition and Presentation of Other-Than-Temporary Impairments," which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

This guidance changes existing impairment guidance related to accounting for certain investments in debt and equity securities by eliminating the "ability and intent to hold" provision. In addition, impairment is now considered to be other than temporary if an entity 1) intends to sell the security, 2) more likely than not will be required to sell the security before recovering its cost, or 3) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The "probability" standard relating to the collectability of cash flows is also eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into 1) the estimated amount relating to credit loss, and 2) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. For held-to-maturity securities, the portion of the other-than-temporary impairment not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities are expanded and will now be required quarterly (see Note 2), as well as annually.

The District adopted this guidance effective March 31, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The District recognized an adjustment to beginning retained earnings in the amount of $3.5 million, and a corresponding adjustment to accumulated other comprehensive income of $3.5 million in the first quarter of 2009.

In April 2009, the 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 District adopted this guidance effective March 31, 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 District effective June 30, 2009 (see Note 11).

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 District effective July 1, 2009 and had no impact on the District’s financial condition or results of operations.

NOTE 2 — INVESTMENT SECURITIES

Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments follows:

September 30, 2009

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Govt. GNMA MBS/CMOs	$ 3,472,650	$ 20,890	$ (27,389)	$ 3,466,151	1.95%
U.S. Govt. Agency MBS	2,764,114	21,310	(64,459)	2,720,965	1.68
Non-Agency CMOs	482,087	-	(105,799)	376,288	0.67
Commercial MBS	11,112	-	(864)	10,248	1.43
Asset-Backed Securities	119,416	95	(25,386)	94,125	0.78
Total	$ 6,849,379	$ 42,295	$ (223,897)	$ 6,667,777	1.72%

December 31, 2008

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Govt. GNMA MBS/CMOs	$ 3,296,293	$ 6,497	$ (57,508)	$ 3,245,282	2.25%
U.S. Govt. Agency MBS	2,632,141	5,161	(103,309)	2,533,993	2.27
Non-Agency CMOs	566,777	275	(162,731)	404,321	1.63
Commercial MBS	13,272	-	(1,505)	11,767	1.89
Asset-Backed Securities	140,386	-	(44,422)	95,964	3.32
Total	$ 6,648,869	$ 11,933	$ (369,475)	$ 6,291,327	2.23%

Held-to-maturity

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments follows:

September 30, 2009 *(dollars in thousands)*	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
U.S. Govt. Agency MBS	$ 1,298,867	$ 58,821	$ (301)	$1,357,387	5.24%
Asset-Backed Securities	96,777	492	(996)	96,273	-
Other	160,931	3,582	(10,047)	154,466	5.17
Total	$ 1,556,575	$ 62,895	$ (11,344)	$1,608,126	4.91%

December 31, 2008 *(dollars in thousands)*	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
U.S. Govt. Agency MBS	$ 1,510,192	$ 45,341	$ (341)	$1,555,192	5.24%
Asset-Backed Securities	131,877	471	(1,380)	130,968	1.59
Other	233,630	7,038	(19,339)	221,329	5.99
Total	$ 1,875,699	$ 52,850	$ (21,060)	$1,907,489	5.09%

A summary of the expected maturity, estimated fair value and amortized cost of investment securities at September 30, 2009 follows:

Available-for-sale

	Due in 1 year or less		**Due after 1 year through 5 years**		**Due after 5 years through 10 years**		**Due after 10 years**		**Total**	
(dollars in thousands)	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**
U.S. Govt. GNMA MBS/CMOs	$ -	- %	$ -	- %	$ 1,713	0.72 %	$ 3,464,438	1.95 %	$ 3,466,151	1.95 %
U.S. Govt. Agency MBS	-	-	652	0.89	153,291	1.62	2,567,022	1.69	2,720,965	1.68
Non-Agency CMOs	-	-	-	-	-	-	376,288	0.86	376,288	0.86
Commercial MBS	-	-	-	-	-	-	10,248	1.55	10,248	1.55
Asset-Backed Securities	425	1.37	28,003	1.37	12,304	1.20	53,393	0.73	94,125	0.98
Total fair value	$ 425	1.37 %	$ 28,655	1.36 %	$ 167,308	1.58 %	$ 6,471,389	1.77 %	$ 6,667,777	1.77 %
Total amortized cost	$ 420		$ 28,663		$ 165,934		$ 6,654,362		$ 6,849,379	

Held-to-maturity

	Due in 1 year or less		**Due after 1 year through 5 years**		**Due after 5 years through 10 years**		**Due after 10 years**		**Total**	
(dollars in thousands)	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**
U.S. Govt. Agency MBS	$ -	- %	$ -	- %	$ 2,971	5.01 %	$ 1,295,896	5.24 %	$ 1,298,867	5.24 %
Asset-Backed Securities	2,592	1.73	8,969	1.63	49,620	1.47	35,596	1.75	96,777	1.59
Other	5,171	6.25	11,366	3.19	51,757	6.60	92,637	5.99	160,931	5.99
Total amortized cost	$ 7,763	4.74 %	$ 20,335	2.50 %	$ 104,348	4.11 %	$ 1,424,129	5.20 %	$ 1,556,575	5.09 %
Total fair cost	$ 7,971		$ 20,611		$ 101,935		$ 1,477,609		$ 1,608,126	

AgFirst's and certain District Association's investments include primarily mortgage-backed securities (MBSs) and asset backed securities (ABSs). MBSs are collateralized by U.S. government or U.S. agency guaranteed residential mortgages and all were rated in the top category (AAA/Aaa) by the Nationally Recognized Statistical Rating Organizations (NRSROs) at September 30, 2009. Non-agency CMO securities not rated in the top category by at least one of the NRSROs at September 30, 2009 had a fair value of $176.0 million. ABSs not rated in the top category by at least one of the NRSROs at September 30, 2009 had a fair value of $41.3 million. All ABSs have credit enhancement features including senior/subordinate structure and/or are backed by a bond insurer.

The fair value of all investments at September 30, 2009 split rated AAA/Aaa or lower by the NRSROs totaled $414.5 million (amortized cost of $544.4 million), which represents approximately 5.01 percent (and 6.48 percent) of total fair value (and amortized cost) of the District's total investment portfolio at September 30, 2009.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following table shows the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at September 30, 2009.

	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Govt. GNMA MBS/CMOs	$ 818,968	$ 8,327	$ 1,118,059	$ 19,062	$ 1,937,027	$ 27,389
U.S. Govt. Agency MBS	234,629	25,127	1,458,518	39,633	1,693,147	64,760
Non-Agency CMOs	12,503	2,237	363,785	103,561	376,288	105,798
Asset-Backed Securities	17,185	122	106,743	26,260	123,928	26,382
Mortgage-Backed Securities	-	-	10,248	864	10,248	864
Other	31,936	4,127	67,585	5,921	99,521	10,048
Total	$ 1,115,221	$ 39,940	$ 3,124,938	$ 195,301	$ 4,240,159	$ 235,241

On September 30, 2009, the District held certain investments having continuous unrealized loss positions for more than 12 months with a fair value totaling $3.125 billion and an unrealized loss position totaling $195.3 million. The District performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others: 1) the length of time and the extent to which the fair value is less than cost, 2) the financial condition and near-term prospects of the issuer, 3) the estimated cash flow projections compared to contractual cash flows, 4) significant rating agency changes on the issuer, and 5) the District's ability and intent to hold these investments for a period of time sufficient to collect all amounts due according to the contractual terms of the investments. Based on the results of all analyses, the District has recognized total other-than-temporary impairment during the first nine months of 2009 of $59.0 million in connection with ABS securities and non-agency CMO securities in the Bank's portfolio, which is included in Impairment Losses on Investments in the Combined Statements of Income.

Since the District does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the other-than temporary impairment of $59.0 million is separated into: 1) the estimated amount relating to credit loss ($20.7 million reflected in Net Income in the Combined Statements of Income), and 2) the amount relating to all other factors ($38.3 million reflected in other comprehensive income in the Combined Statement of Changes in Shareholders' Equity). Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis. In determining the amount of credit loss, the District uses the expected present value technique as its best estimate of the present value of cash flows expected to be collected from the debt security. Significant inputs used in this technique to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan to collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings.

Due to the adoption of FASB guidance, "Recognition and Presentation of Other-Than-Temporary Impairments", the District recognized the cumulative effect of initially applying this guidance in 2009 as an adjustment to the opening balance of unallocated retained earnings of $3.5 million with the corresponding adjustment amount to AOCI. The $3.5 million represents the noncredit-related amount of the previous other-than-temporary impairment recognized by the District in 2008 of $10.5 million on one ABS security.

For all investments other than the other-than-temporarily impaired securities discussed above, the District has not recognized any other-than-temporary impairment as the unrealized losses resulted primarily from reduced liquidity in the securities markets stemming from general adversity in the financial markets. Full payment of principal and interest is expected. The District has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements. Substantially all of these investments were in U. S. government agency securities and the District expects these securities would not be settled at a price less than their amortized cost. For the nine months ended September 30, 2009, net unrealized gains of $217.7 million were recognized in other comprehensive income for temporarily impaired available-for-sale investments.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings as of September 30, 2009:

(dollars in thousands)	**For the nine months ended September 30, 2009**
Beginning balance at January 1, 2009	$ -
Adjustment to beginning balance due to application of investment impairment accounting change	6,991
Adjusted beginning balance at January 1, 2009	6,991
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	18,639
Increases to the amount related to credit loss for which other-than-temporary impairment was previously recognized when the Bank does not intend to sell and it is not more likely than not that it will be required to sell before recovery of its amortized cost basis	2,082
Ending balance at September 30, 2009	$ 27,712

NOTE 3 — ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

(dollars in thousands)	**For the nine months ended September 30, 2009**	**2008**
Balance at beginning of period	$ 169,090	$ 78,874
Provision for (reversal of) loan losses	148,869	55,040
Charge-offs	(104,175)	(20,555)
Recoveries	2,197	949
Balance at end of period	$ 215,981	$ 114,308

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

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

(dollars in thousands)	**2009**	**2008**
Impaired loans with related allowance	$ 408,958	$ 189,333
Impaired loans with no related allowance	489,113	104,447
Total impaired loans	$ 898,071	$ 293,780
Allowance on impaired loans	$ 110,085	$ 46,753

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

(dollars in thousands)	**2009**	**2008**
Average impaired loans	$ 645,552	$ 164,350
Interest income recognized on impaired loans	5,481	4,609

NOTE 4 — FAIR VALUE MEASUREMENT

Effective January 1, 2008, the District adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the District's fair value disclosure for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities primarily consist of investments available-for-sale, highly-liquid funds, derivative assets and liabilities, assets held in trust funds, standby letters of credit, impaired loans, other property owned, and collateral liabilities.

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 District'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. Level 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter markets.

The District's Level 1 assets at September 30, 2009 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust 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. Level 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

The fair value of substantially all of the District's investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

The fair value of the District's derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models. These models incorporate benchmark interest rate curves, volatilities, and other inputs which are observable directly or indirectly in the marketplace. The District compares internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

The District's Level 2 assets and liabilities at September 30, 2009 include derivative contracts and investment securities in U.S. government and agency mortgage-backed securities, non-agency mortgage-backed securities, and U.S. agency debt securities, all of which have unadjusted values from third-party or internal pricing models. Level 2 assets also include federal funds sold, securities purchased under resale agreements and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments is generally their face value, plus accrued interest, as these instruments are highly-liquid, readily convertible to cash, and short-term in nature.

The District's Level 2 liabilities also include collateral liabilities. The majority of derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached. The market value of collateral liabilities is its face value plus accrued interest that approximates fair value.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Level 3 assets and liabilities could include investments and derivative contracts whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, and other instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets and liabilities also could include investments and derivative contracts 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.

Level 3 assets at September 30, 2009 also include the Bank's mortgage-related asset-backed investment portfolio and non-agency CMO investment portfolio. Based on the currently illiquid marketplace for non-agency mortgage-backed investments and the lack of marketplace information available as inputs and assumptions to the valuation process, the Bank classified the mortgage-related asset-backed investment portfolio and non-agency CMO investment portfolio as Level 3 assets. The fair value measurement of these assets involved management's judgment and was based on multiple factors including information obtained from third-party valuation services using both level 2 and level 3 inputs.

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 fair value 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:

(dollars in thousands)	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	$ -	$ 3,466,151	$ -	$ 3,466,151
U.S. Govt. Agency MBS	-	2,720,965	-	2,720,965
Non-Agency CMOs	-	-	376,288	376,288
Commercial MBS	-	10,248	-	10,248
Asset-Backed Securities	-	40,732	53,393	94,125
Federal funds sold, securities purchased under resale agreements, and other	-	221,550	-	221,550
Interest rate swaps and other financial instruments	-	84,644	-	84,644
Assets held in trust funds	9,854	-	-	9,854
Total Assets	$ 9,854	$ 6,544,290	$ 429,681	$ 6,983,825
Liabilities:				
Interest rate swaps and other financial instruments	$ -	$ (19)	$ -	$ (19)
Collateral liabilities	-	23,299	-	23,299
Standby letters of credit	-	-	5,618	5,618
Total Liabilities	$ -	$ 23,280	$ 5,618	$ 28,898

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis. Non-agency CMO securities of the Bank were transferred from level 2 to level 3 assets effective March 31, 2009 as the Bank began adjusting the valuation obtained from a third party pricing service for this portfolio to reflect, in part, the valuation obtained from a cash flow modeling process. Total credit losses of $1.4 million were included in earnings for the first quarter of 2009 for non-agency CMOs determined to be other-than-temporarily impaired by the Bank.

(dollars in thousands)	Asset-Backed Investment Securities	Non-agency CMOs	Standby Letters Of Credit
Balance at January 1, 2009	$ 79,961	$ -	$ 5,262
Total gains or (losses) realized/unrealized:			
Included in earnings	(15,966)	(3,312)	-
Included in other comprehensive loss	22,495	41,149	-
Purchases, sales, issuances and settlements, net	(33,097)	(58,869)	356
Transfers in and/or out of level 3	-	397,320	-
Balance at September 30, 2009	$ 53,393	$ 376,288	$ 5,618

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:

(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**YTD Total Gains (Losses)**
Assets:					
Impaired loans	$ -	$ -	$ 298,574	$ 298,574	$ (123,980)
Other Property Owned	$ -	$ -	$ 66,785	$ 66,785	$ (1,386)

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Quoted market prices are generally not available for certain Systemwide 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.

	September 30, 2009	
(dollars in thousands)	**Carrying Amount**	**Estimated Fair Value**
Financial assets:		
Loans, net of allowance	$ 23,096,680	$ 23,510,265
Derivative assets	$ 84,644	$ 84,644
Cash & cash equivalents	$ 329,626	$ 329,626
Investment securities	$ 8,224,352	$ 8,275,903
Other investments	$ 357,600	$ 384,399
Assets held in trust funds	$ 9,854	$ 9,854
Financial liabilities:		
Bonds and notes	$ 28,268,052	$ 28,415,877
Derivative liabilities	$ (19)	$ (19)

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

A. **Loans:** Because no active market exists for the District's loans, fair value is estimated by discounting the expected future cash flows using the District's current interest rates at which similar loans would be made to borrowers with similar credit risk.

   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 are estimated to be the carrying amount of the loan less specific reserves. The carrying value of accrued interest approximates its fair value.

B. **Cash and Cash Equivalents:** The carrying value is primarily a reasonable estimate of fair value.

C. **Investment Securities:** Fair value is primarily based upon prices obtained from a third party valuation service. See additional information in Note 4.

D. **Other Investments:** Fair value is estimated by discounting future annual cash flows using prevailing rates for similar instruments at year-end.

E. **Bonds and Notes:** Systemwide bonds and notes are not regularly traded; thus, quoted market prices are not available. Fair value of these instruments is estimated by discounting expected future cash flows based on the quoted market price of similar maturity Treasury notes, assuming a constant estimated current yield spread relationship between Systemwide bonds and notes and comparable Treasury notes.

F. **Derivative Instruments:** The fair value of derivatives is the estimated amount to be received or paid to replace the instruments at the reporting date, considering current and projected interest rates. Where actively quoted market prices do not exist, estimated fair values are determined through dealer quotes. See additional information in Note 4.

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

NOTE 6 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each Farm Credit System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the banks are jointly and severally liable for the bonds and notes of the other Farm Credit System banks. The total bonds and notes of the System were $177.150 billion at September 30, 2009.

Actions are pending against AgFirst and/or certain District Associations in which claims for money damages are asserted. On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the combined financial position of AgFirst and District Associations.

NOTE 7 — EMPLOYEE BENEFIT PLANS

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

	For the nine months ended September 30,	
(dollars in thousands)	**2009**	**2008**
Pension	$ 42,272	$ 9,319
401k	4,278	4,109
Other postretirement benefits	6,493	5,849
Total	$ 53,043	$ 19,277

The following table includes retirement and other postretirement benefit contributions for the District. Projections are based upon actuarially determined amounts as of the most recent measurement date of December 31, 2008.

(dollars in thousands)	**Actual YTD Through 9/30/09**	**Projected Contributions for Remainder Of 2009**	**Projected Total Contributions 2009**
Pensions	$ 371	$56,033	$56,404
Other postretirement benefits	4,285	1,992	6,277
Total	$4,656	$58,025	$62,681

Actuarial calculations as of the last plan measurement date (December 31, 2008) projected total contributions of $61.9 million to the District pension plans for all participating institutions for 2009. However, a new funding policy adopted during 2009 by one of the plans' Sponsor Committee resulted in a revised $56.4 million projected total contribution for 2009 as shown in the above table. The funding policies for these plans, including the one adopted during 2009, are primarily 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 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 8 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2009, the District adopted FASB guidance, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required.

The District maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to lower cost of funding or to reduce interest rate risk. The District's goal is to manage interest rate sensitivity by modifying the repricing characteristics of certain balance sheet assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. As a result of interest rate fluctuations, interest income and interest expense related to hedged variable-rate assets and liabilities, respectively, will increase or decrease. Another result of interest rate fluctuations is that hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effects of any earnings variability or unrealized changes in market value are expected to be substantially offset by the District's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The District considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The District enters into derivatives, particularly interest rate swaps, to lower funding costs, allow it to diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Interest rate swaps allow the District to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the District if floating rate borrowings were made directly. Under interest rate swap arrangements, the District agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index. The District may also purchase interest rate derivatives such as caps in order to reduce the impact of rising interest rates on its floating-rate debt and floors in order to reduce the impact of falling interest rates on its floating-rate assets.

The primary type of derivative instrument used and the amount of activity for the nine months ended September 30, 2009 is summarized in the following table:

(dollars in millions)	**Receive-Fixed Swaps**
Balance at beginning of period	$2,223
Additions	-
Maturities/amortization	(650)
Terminations	(50)
Balance at end of period	$1,523

By using derivative instruments, the District exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the District's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the

District, thus creating a repayment risk for the District. When the fair value of the derivative contract is negative, the District owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the District deals with counterparties that have an investment grade credit rating from a major rating agency, and also monitors the credit standing of and levels of exposure to individual counterparties. The estimated credit risk exposure at September 30, 2009 of $61.0 million, net of $23.3 million interest-bearing cash collateral posted by two counterparties, was with eight counterparties and represents approximately 4.01 percent of the total notional amount of interest rate swaps. The estimated credit risk exposure at December 31, 2008 of $117.0 million, net of $8.0 million interest-bearing cash collateral posted by two counterparties, was with eight counterparties and represents approximately 5.26 percent of the total notional amount of interest rate swaps. The District does not anticipate nonperformance by any of these counterparties. The District typically enters into master agreements that contain netting provisions. These provisions allow the District to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties. At September 30, 2009, the District had not posted collateral with respect to these arrangements.

All of the District's derivative activities are performed by the Bank, which are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of the District's asset/liability and treasury functions. The Bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by the Bank's board of directors through the Bank's analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the District's overall interest rate risk-management strategies.

Fair-Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. The District includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the gain on interest rate swaps recognized in interest expense for the nine months ended September 30, 2009 was $40.3 million, while the amount of the loss on the Systemwide Debt Securities was ($40.3) million. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

(dollars in thousands)	**Balance Sheet Classification – Assets**	**9/30/09 Fair Value**	**Balance Sheet Classification - Liabilities**	**9/30/09 Fair Value**
Derivatives designated as hedging instruments under SFAS No. 133:				
Receive-fixed swaps	Other Assets	$84,644	Other Liabilities	$(19)
Total		$84,644		$(19)

The following table sets forth the effect of derivative instruments on the Statement of Income for the nine month period ended September 30, 2009:

(dollars in thousands)	**Location of Gain or (Loss) Recognized in the Statement of Income**	**Amount of Gain or (Loss) Recognized in the Statement of Income**
Derivatives – Fair Value Hedging Relationships:		
Receive-fixed swaps	Noninterest Income	$488
Total		$488

NOTE 9 – DISTRICT MERGER ACTIVITY

In late September 2009, the Boards of Directors of Farm Credit of the Virginias, ACA and AgChoice Farm Credit, ACA (collectively referred to as the "Merger Associations") signed a letter of intent to merge. The letter of intent to merge allows the Merger Associations to explore the benefits of a merger. If both Boards of the Merger Associations agree to proceed with a merger, a Plan of Merger will be prepared and submitted to the Bank and the Farm Credit Administration (FCA) for approval. Upon approval by the Bank and FCA, the Plan of Merger will be submitted to shareholders of the Merger Associations for their review and approval. The letter of intent to merge contains a proposed merger effective date of July 1, 2010.

NOTE 10 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data

(dollars in thousands)	**9/30/09** *(unaudited)*	**12/31/08** *(audited)*
Cash, cash equivalents and investment securities	$ 8,369,837	$ 8,270,160
Loans	21,362,489	21,239,330
Less: allowance for loan losses	53,298	44,565
Net loans	21,309,191	21,194,765
Other assets	405,928	446,126
Total assets	$ 30,084,956	$ 29,911,051
Bonds and notes	$ 28,068,052	$ 28,053,023
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	190,298	391,936
Total liabilities	28,483,350	28,669,959
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	436,424	434,929
Retained earnings	947,016	763,355
Accumulated other comprehensive income (loss)	(181,834)	(357,192)
Total shareholders' equity	1,601,606	1,241,092
Total liabilities and equity	$ 30,084,956	$ 29,911,051

Statement of Income Data

	For the nine months ended September 30,	
(dollars in thousands)	**2009** *(unaudited)*	**2008** *(unaudited)*
Interest income	$ 778,745	$1,003,509
Interest expense	429,371	740,568
Net interest income	349,374	262,941
Provision for (reversal of) loan losses	54,388	9,524
Net interest income after provision for loan losses	294,986	253,417
Noninterest expense, net	101,004	69,224
Net income	$ 193,982	$ 184,193

NOTE 11 — SUBSEQUENT EVENTS

The District 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.