AgFirst Farm Credit Bank

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, 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

November 6, 2009

Report on Internal Control Over Financial Reporting

The Bank's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Bank's 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'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 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, (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 (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its Financial Statements.

The Bank'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 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 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
Chief Financial Officer

November 6, 2009

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) 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. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. 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 AgFirst's business.

FINANCIAL CONDITION

Loan Portfolio

AgFirst's loan portfolio primarily consists of direct loans to District Associations (Direct Notes), loan participations/syndications purchased, Correspondent Lending loans (primarily first lien residential mortgages), and loans to Other Financing Institutions (OFIs) as shown below:

AgFirst Loan Portfolio

(dollars in thousands)	September 30, 2009		December 31, 2008		September 30, 2008	
Direct Notes	$ 15,018,544	70.30%	$ 14,997,151	70.61%	$ 15,237,320	71.68%
Participations/Syndications purchased, net	4,731,854	22.15	4,925,744	23.19	4,749,263	22.34
Correspondent Lending	1,596,091	7.47	1,309,285	6.16	1,249,835	5.88
Loans to OFIs	16,000	0.08	7,150	0.04	22,345	0.10
Total	$ 21,362,489	100.00%	$ 21,239,330	100.00%	$ 21,258,763	100.00%

Total loans outstanding were $21.362 billion at September 30, 2009, an increase of $123.2 million, or 0.58 percent, compared to total loans outstanding at December 31, 2008. In late 2008, the Bank'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 Bank's loan portfolio at September 30, 2009, and selected prior periods.

AgFirst Total Loan Portfolio Credit Quality as of:			
Classification	**September 30, 2009**	**December 31, 2008**	**September 30, 2008**
Acceptable	86.92%	95.57%	95.50%
OAEM *	11.08%	3.44%	3.90%
Substandard	2.00%	0.99%	0.60%
Doubtful	0.00%	0.00%	0.00%

* *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. AgFirst 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.

Direct Notes

AgFirst's primary line of business is to provide funds to the District Associations. AgFirst has a revolving line of credit, referred to as a Direct Note, in place with each of the Associations to support their loan growth and other operating needs. All the assets of the Associations secure the Direct Notes, and the capital and loan loss reserves of the Associations cushion the Bank from possible losses in the Associations' respective loan portfolios. Lending terms, including Association financial performance criteria, are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations.

At September 30, 2009, total Direct Note volume outstanding was $15.019 billion, an increase of $21.4 million, or 0.14 percent, compared to December 31, 2008. The small volume increase was primarily due to weak agricultural loan demand as discussed above, and an increase in the Bank's purchase of loan pools from certain Associations, which reduced those Associations' borrowing needs under their Direct Notes.

Credit quality statistics for the Direct Note portfolio are shown in the following chart:

Direct Note Credit Quality as of:			
Classification	**September 30, 2009**	**December 31, 2008**	**September 30, 2008**
Acceptable	86.15%	96.99%	95.82%
OAEM *	13.85%	3.01%	4.18%
Substandard	0.00%	0.00%	0.00%
Doubtful	0.00%	0.00%	0.00%

* *Other Assets Especially Mentioned*

As of September 30, 2009, fifteen of the twenty-two District Associations' Direct Notes, representing 86.15 percent of the Direct Note portfolio, were classified acceptable. The remaining seven Direct Notes, representing 13.85 percent of the total, were classified as Other Assets Especially Mentioned (OAEM). All twenty-two of the Direct Notes are performing. Twenty Associations met or exceeded the minimum GFA requirements for liquidity and earnings as of September 30, 2009. Prior to 2009, one Association was operating under a special credit arrangement. At December 31, 2008, that Association was in violation of its liquidity requirement as measured under its Borrowing Base Formula as defined in the GFA. The same Association also failed to meet the standard earnings covenant at December 31, 2008. In early 2009, following a review of a business plan submitted by the Association to achieve compliance with the covenants during 2009, the Bank approved a temporary waiver of the defaults and allowed the Association to continue operating under a special credit arrangement pursuant to its GFA. An additional

Association also failed to meet its earnings covenant at December 31, 2008. Following review of a business plan submitted in early 2009 by that Association to achieve compliance with the covenant during 2009, the Bank approved a waiver of the default. All District Associations met all regulatory capital requirements.

Participations/ Syndications

AgFirst has a participations/syndications portfolio, which consists primarily of commercial agricultural and agribusiness loans. As of September 30, 2009, the participations/syndications portfolio totaled $4.732 billion. The size of this portfolio decreased $193.9 million, or 3.94 percent, from December 31, 2008 to September 30, 2009. As with the Direct Notes, borrower demand in this portfolio is anticipated to be very moderate at least through the middle of 2010.

The credit quality of the participations/syndications portfolio showed a decline during the past twelve months. AgFirst 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. Although the participations/ syndications portfolio is comprised of a small number of relatively large loans, it 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.

Credit quality statistics for the participations/syndications portfolio are shown in the following chart:

Participations/Syndications Credit Quality as of:			
Classification	**September 30, 2009**	**December 31, 2008**	**September 30, 2008**
Acceptable	85.12%	90.17%	93.86%
OAEM *	5.92%	5.56%	3.65%
Substandard	8.96%	4.27%	2.49%
Doubtful	0.00%	0.00%	0.00%

* *Other Assets Especially Mentioned*

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 Bank had minimal exposure to the ethanol industry at September 30, 2009 with only 0.87 percent of total participation loans outstanding related to ethanol. Also, a significant portion of the Bank’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.

Correspondent Lending

AgFirst also has a correspondent lending portfolio, which consists primarily of first lien residential mortgages. As of September 30, 2009, the correspondent lending portfolio totaled $1.596 billion. From December 31, 2008 to September 30, 2009, this portfolio increased $286.8 million, or 21.91 percent. The increase in volume of this portfolio was primarily due to refinancing activity generated by the lower interest rate environment.

Essentially all loans in the correspondent lending portfolio are guaranteed by the Federal National Mortgage Association (Fannie Mae) and/or the Federal Agricultural Mortgage Corporation (Farmer Mac), thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the "guarantor" at par. At September 30, 2009, 99.71 percent of the correspondent lending portfolio was classified as Acceptable, and 0.29 percent was classified as OAEM.

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

Nonaccrual loan assets for the Bank at September 30, 2009, were $287.9 million compared to $176.4 million at December 31, 2008. Nonaccrual loans increased $111.5 million, net of charge-offs and transfers to other property owned, for the nine months ended September 30, 2009 primarily due to one borrower relationship in the forestry industry, one in the swine industry and one in other real estate industry, which in total comprise 37.15 percent of the total nonaccrual loan balance at September 30, 2009. The seven largest nonaccrual loan relationships accounted for 70.29 percent of the total. These seven largest nonaccrual relationships were classified in the forestry (23.79 percent of the seven largest total), poultry (15.25 percent), other real estate (13.11 percent), swine (12.84 percent), cattle (7.18 percent), and ethanol (5.19 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 1.35 percent of total loans outstanding at September 30, 2009. Management reviews, on an ongoing basis, the Bank'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 (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 $28.8 million during the first nine months of 2009 and totaled $29.3 million at September 30, 2009. This increase is primarily due to nonaccrual loans that were transferred into OPO from four participation borrower relationships. Ethanol production facilities account for $26.7 million (91.15 percent) of the Bank's total OPO holdings at September 30, 2009. Total gains of $7.6 million from four 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 Bank 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 $53.3 million at September 30, 2009, as compared with $44.6 million at December 31, 2008. The increase during the nine months ended September 30, 2009 was primarily due to provision expense of $54.4 million (see discussion of provision expense in the *Provision for Loan Losses* section below) offset by charge-offs of $45.7 million for loan amounts determined to be uncollectible. Charge-offs were primarily related to the ethanol (54.51 percent of the total), cattle (18.86 percent), forestry (14.47 percent), and citrus (9.63 percent) industries. The allowance at September 30, 2009 included specific reserves of $34.0 million primarily related to specific credits for participation borrower relationships within the ethanol, forestry, other real estate, and swine industries (82.81 percent of the total) and $19.3 million of general reserves attributed to participation loans. The total allowance at September 30, 2009 is primarily comprised of reserves for the ethanol (24.30 percent of the total), forestry (23.15 percent), swine (10.68 percent) and other real estate (9.28 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. See *Provision for Loan Losses* section below for details regarding increases to the allowance from provision expense.

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, AgFirst had $28.068 billion in total debt outstanding compared to $28.053 billion at December 31, 2008. In addition, other interest-bearing liabilities for AgFirst included $225.0 million in Mandatorily Redeemable Preferred Stock in both periods. Total interest-bearing liabilities remained relatively constant primarily due to 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 $37.6 million from December 31, 2008 to a total of $314.6 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 $8.055 billion, or 26.78 percent of total assets at September 30, 2009, compared to $7.993 billion, or 26.72 percent, as of December 31, 2008. Investment securities increased $62.1 million, 0.78 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 $1.438 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 $6.617 billion at September 30, 2009. Available-for-sale investments at September 30, 2009 included $3.632 billion in Agency Collateralized Mortgage Obligations (CMOs), $2.555 billion in Agency Adjustable Rate Mortgages, $376.3 million in non-agency CMOs, and $53.4 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 $175.2 million for the nine months ended September 30, 2009 to a total of $180.6 million at September 30, 2009. These net unrealized losses are reflected in Accumulated Other Comprehensive Income (AOCI) in the 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.

The Bank has low exposure to investments backed by subprime mortgages. Asset-backed securities with subprime exposure totaled $53.4 million, which represented 0.81 percent of the available-for-sale liquidity investment portfolio and 0.66 percent of the total investment security portfolio at September 30, 2009. The amortized cost of these 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 $180.6 million of net unrealized losses reflected in AOCI at September 30, 2009. The Bank's 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, 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. Bank non-agency CMOs totaled $376.3 million, which represented 5.7 percent of the available-for-sale liquidity investment portfolio and 4.7 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 $180.6 million of net unrealized losses reflected in AOCI at September 30, 2009 as discussed above. The Bank'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 $175.3 million and an amortized cost of $231.2 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. For each of the investment securities in the Bank's portfolio at September 30, 2009 rated below AAA/ Aaa (total fair value of $216.7 million and amortized cost of $296.3 million), the Bank has 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 Bank's 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 Bank ineligible securities at September 30, 2009 are risk weighted 100 percent or 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 $151.3 million and amortized cost of $209.4 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 Bank 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 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 Bank 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 Bank 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 service 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.

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 shareholders' equity increased $360.5 million from December 31, 2008 to September 30, 2009. This 29.05 percent net increase is primarily attributed to an increase in unallocated retained earnings from net income of $194.0 million and a decrease of $175.2 million in unrealized losses on investments available-for-sale, a component of AOCI. Total unrealized losses on investments available-for-sale were $180.6 million at September 30, 2009.

As of September 30, 2009, AgFirst exceeded the minimum permanent capital, core surplus, total surplus, and net collateral ratio requirements established by FCA Regulations. In conjunction with the issuance of the Mandatorily Redeemable Preferred Stock, FCA requires AgFirst to maintain a minimum net collateral ratio of 104.00 percent compared to the System regulatory minimum of 103.00 percent. AgFirst reported the following regulatory ratios:

	Regulatory	**AgFirst Ratio as of**	
	Minimum	**9/30/09**	**12/31/08**
Permanent Capital Ratio	7.00%	16.05%	17.15%
Total Surplus Ratio	7.00%	16.01%	17.11%
Core Surplus Ratio	3.50%	9.00%	10.43%
Net Collateral Ratio	104.00%	106.16%	105.56%

The Bank's permanent capital, total surplus, and core surplus ratios declined at September 30, 2009 as compared to December 31, 2008. These ratios are calculated using three month average daily balances for both capital and assets. Deductions for ineligible investment securities were higher in the 2009 period. The impairment in AOCI, as discussed above, does not affect the reported capital ratios because the affect of AOCI is excluded entirely from the risk-based capital ratios.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2009 was $77.5 million, compared to $78.2 million at September 30, 2008, a decrease of $615 thousand, or 0.79 percent. For the nine months ended September 30, 2009, net income was $194.0 million, compared to $184.2 million at September 30, 2008, an increase of $9.8 million, or 5.31 percent. The overall decrease for the three month period and overall increase for the nine month period are discussed below.

Net Interest Income

Net interest income for the three months ended September 30, 2009 was $124.2 million compared to $98.0 million for the same period of 2008, an increase of $26.2 million or 26.77 percent. For the nine months ended September 30, 2009, net interest income was $349.4 million compared to $262.9 million for the same period of 2008, an increase of $86.4 million or 32.87 percent. The net interest margin was 1.66 percent and 1.58 percent in the current year three and nine month periods respectively, an improvement of 33 basis points and 31 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	$ 3,990	$ (59,916)	$ (55,926)	$ 38,062	$ (184,007)	$ (145,945)
Investments & Cash Equivalents	808	(28,425)	(27,617)	13,760	(92,579)	(78,819)
Total Interest Income	$ 4,798	$ (88,341)	$ (83,543)	$ 51,822	$ (276,586)	$ (224,764)
Interest Expense:						
Interest-Bearing Liabilities	$ 4,835	$ (114,596)	$ (109,761)	$ 47,013	$ (358,210)	$ (311,197)
Changes in Net Interest Income	$ (37)	$ 26,255	$ 26,218	$ 4,809	$ 81,624	$ 86,433

Provision for Loan Losses

The provision for loan losses was $19.5 million and $54.4 million for the three and nine month periods ended September 30, 2009, compared to $2.8 million and $9.5 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 participation borrower relationships. The net provision expense of $19.5 million was primarily due to loans classified in the ethanol (37.65 percent of the total), other real estate (22.62 percent), and swine (14.38 percent) industries.

Provision expense for the nine months ended September 30, 2009 was primarily specific reserve increases for six participation borrower relationships and general reserve increase for the ethanol industry. The net provision expense of $54.4 million was primarily due to loans classified in the ethanol (37.06 percent of the total), forestry (18.93 percent), swine (8.63 percent), cattle (8.16 percent), and other real estate (8.05 percent) industries.

As mentioned previously, declining transitional agricultural real estate values were, in part, the reason for some of the provision expense recognized by the Bank.

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	$ 2,925	$ 2,117	$ 808	$ 8,270	$ 6,818	$ 1,452
Gains (losses) from other property owned, net	(47)	–	(47)	(2,333)	–	(2,333)
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	183	(54)	237	488	(54)	542
Gains (losses) on sale of rural home loans, net	1	2	(1)	1	37	(36)
Patronage refunds from other Farm Credit Institutions	792	20	772	1,925	246	1,679
Other noninterest income	2,259	1,702	557	5,433	3,515	1,918
Total noninterest income	$ 2,648	$ 3,787	$ (1,139)	$ 1,488	$ 10,491	$ (9,003)

Noninterest income, net of certain gains and losses as detailed in the table above for the three months ended September 30, 2009, was $2.6 million, which reflected a decrease of $1.1 million compared to the same period in 2008. For the nine months ended September 30, 2009, noninterest income was $1.5 million, which reflected a decrease of $9.0 million compared to the same period in 2008. The decrease for 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 Bank as discussed above. The gains on investments during the third quarter of 2009 arose from sales to achieve certain portfolio limits and liquidity parameters. The gains (losses) on derivatives in 2009 are from hedging ineffectiveness related to swap derivatives. Noninterest income benefitted by increases in loan fees and patronage refunds from other Farm Credit Institutions. Also adding to total noninterest income in the 2009 periods was other noninterest income primarily from outside sources for services to Associations and other Farm Credit System entities, a 2008 captive insurance allocated savings, based on claims experience, recorded in the first quarter of 2009, and a gain from the Bank's termination of the 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	$ 9,473	$ 6,722	$ 2,751	$ 28,084	$ 20,838	$ 7,246
Occupancy and equipment	3,499	3,183	316	10,168	10,519	(351)
Insurance Fund premiums	5,175	3,722	1,453	15,504	7,623	7,881
Other operating expenses	6,211	5,261	950	16,374	15,428	946
Called debt expense	4,597	611	3,986	27,893	22,484	5,409
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	$ 29,789	$ 20,789	$ 9,000	$ 102,492	$ 79,715	$ 22,777

Noninterest expense for the three months ended September 30, 2009 was $29.8 million, which reflected an increase of $9.0 million compared to the corresponding period in 2008. For the nine months ended September 30, 2009, noninterest expense was $102.5 million, which reflected an increase of $22.8 million compared to the corresponding period in 2008.

Salaries and employee benefits increased $2.8 million (40.93 percent) and $7.2 million (34.77 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 Districtwide plan in which the Bank participates. See Note 7, *Employee Benefit Plans*, in the Notes to the Financial Statements, for further information.

The Insurance Fund premiums increased $1.5 million (39.04 percent) and $7.9 million (103.38 percent) for the three and nine month periods primarily due to a 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 (652.37 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.

Correspondent lending servicing expense decreased $457 thousand (37.43 percent) and increased $1.6 million (62.91 percent) for the three and nine month periods, respectively. The nine month increase was primarily due to higher guarantee fees from increased volume in the correspondent lending portfolio.

Other noninterest expense consists of amortization of 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	0.87%	0.76%	0.87%
Return on average shareholders' equity	18.56%	14.59%	16.67%
Net interest income as a percentage of average earning assets	1.58%	1.29%	1.25%
Net (charge-offs) recoveries to average loans	0.29%	(0.01)%	0.011%

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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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.

Balance Sheets

(dollars in thousands)	September 30, 2009	December 31, 2008
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	$ 314,570	$ 277,003
Investment securities:		
Available for sale (amortized cost of $6,797,399 and $6,619,348 respectively)	6,616,797	6,263,557
Held to maturity (fair value of $1,490,582 and $1,763,185 respectively)	1,438,470	1,729,600
Total investment securities	8,055,267	7,993,157
Loans	21,362,489	21,239,330
Less: allowance for loan losses	53,298	44,565
Net loans	21,309,191	21,194,765
Accrued interest receivable	98,777	106,593
Investments in other Farm Credit System institutions	75,125	75,055
Premises and equipment, net	16,279	18,061
Other property owned	29,314	540
Due from associations	24,702	40,671
Other assets	161,731	205,206
Total assets	$ 30,084,956	$ 29,911,051
Liabilities		
Bonds and notes	$ 28,068,052	$ 28,053,023
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividends payable	97,515	154,143
Patronage distribution payable	—	157,017
Other liabilities	92,783	80,776
Total liabilities	28,483,350	28,669,959
Commitments and contingencies (Note 6)	—	—
Shareholders' Equity		
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	436,424	434,929
Retained earnings		
Allocated	848	805
Unallocated	946,168	762,550
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

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

Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2009	2008	For the nine months ended September 30, 2009	2008
Interest Income				
Investment securities and other	$ 49,487	$ 77,104	$ 152,367	$ 231,186
Loans	202,131	258,057	626,378	772,323
Total interest income	251,618	335,161	778,745	1,003,509
Interest Expense	127,445	237,206	429,371	740,568
Net interest income	124,173	97,955	349,374	262,941
Provision for (reversal of) loan losses	19,493	2,799	54,388	9,524
Net interest income after provision for (reversal of) loan losses	104,680	95,156	294,986	253,417
Noninterest Income				
Loan fees	2,925	2,117	8,270	6,818
Gains (losses) from other property owned, net	(47)	—	(2,333)	—
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, net	1	2	1	37
Patronage refunds from other Farm Credit institutions	792	20	1,925	246
Other noninterest income	2,259	1,702	5,433	3,515
Total noninterest income	2,648	3,787	1,488	10,491
Noninterest Expenses				
Salaries and employee benefits	9,473	6,722	28,084	20,838
Occupancy and equipment	3,499	3,183	10,168	10,519
Insurance Fund premiums	5,175	3,722	15,504	7,623
Other operating expenses	6,211	5,261	16,374	15,428
Called debt expense	4,597	611	27,893	22,484
Correspondent lending servicing expense	764	1,221	4,260	2,615
Other noninterest expense	70	69	209	208
Total noninterest expenses	29,789	20,789	102,492	79,715
Net income	$ 77,539	$ 78,154	$ 193,982	$ 184,193

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	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	$ 364,759	$705	$ 730,724	$ (38,707)	$ 1,457,481
Comprehensive income						
Net income				184,193		184,193
Unrealized gains (losses) on investments available for sale					(161,423)	(161,423)
Employee benefit plans adjustments				(138)	130	(8)
Total comprehensive loss						22,762
Capital stock/participation certificates issued/(retired), net		47,060				47,060
Perpetual preferred stock dividends paid				(13,706)		(13,706)
Cash patronage				(261)		(261)
Patronage distribution adjustment			(89)	199		110
Balance at September 30, 2008	$ 400,000	$ 411,819	$ 616	$ 901,011	$ (200,000)	$ 1,513,446
Balance at December 31, 2008	$ 400,000	$ 434,929	$ 805	$ 762,550	$ (357,192)	$ 1,241,092
Comprehensive income (loss)						
Net income				193,982		193,982
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 2)					(38,311)	
Temporarily impaired (Note 2)					216,974	
Total unrealized gains (losses) on investments available for sale						178,663
Employee benefit plans adjustments					169	169
Total comprehensive income						372,814
Capital stock/participation certificates issued/(retired), net		1,495				1,495
Perpetual preferred stock dividends paid				(13,706)		(13,706)
Nonqualified allocated retained earnings			43	(43)		—
Cash patronage				(25)		(25)
Cumulative-effect adjustment for investment impairment accounting change (Note 2)				3,474	(3,474)	—
Patronage distribution adjustment				(64)		(64)
Balance at September 30, 2009	$ 400,000	$ 436,424	$ 848	$ 946,168	$ (181,834)	$ 1,601,606

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2009	2008
Cash flows from operating activities:		
Net income	$ 193,982	$ 184,193
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	6,482	7,170
Premium amortization/discount accretion on investment securities	10,257	4,083
Premium amortization/discount accretion on bonds and notes	10,309	7,700
Provision for (reversal of) loan losses	54,388	9,524
(Gains) losses on other property owned, net	2,333	—
Net impairment losses on investments	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)	(37)
Net change in loans held for sale	1	21,181
(Increase) decrease in accrued interest receivable	7,816	(5,151)
(Increase) decrease in due from associations	15,969	12,993
(Increase) decrease in other assets	3,137	(1,081)
Increase (decrease) in accrued interest payable	(56,628)	10,431
Increase (decrease) in other liabilities	(4,722)	5,769
Total adjustments	61,149	72,707
Net cash provided by (used in) operating activities	255,131	256,900
Cash flows from investing activities:		
Investment securities purchased	(1,900,554)	(2,565,075)
Investment securities sold or matured	1,921,801	1,376,998
Net (increase) decrease in loans	(111,801)	(2,166,766)
(Increase) decrease in investments in other Farm Credit System institutions	(70)	(10,529)
(Increase) decrease in restricted cash	—	(11,000)
Purchase of premises and equipment, net	(4,700)	(6,011)
Proceeds from sale of other property owned	1,880	—
Net cash provided by (used in) investing activities	(93,444)	(3,382,383)
Cash flows from financing activities:		
Bonds and notes issued	81,605,716	85,684,062
Bonds and notes retired	(81,560,519)	(82,766,910)
Capital stock and participation certificates issued/retired, net	1,495	47,060
Cash distribution to shareholders	(157,106)	(153,254)
Dividends paid on perpetual preferred stock	(13,706)	(13,706)
Net cash provided by (used in) financing activities	(124,120)	2,797,252
Net increase (decrease) in cash and cash equivalents	37,567	(328,231)
Cash and cash equivalents, beginning of period	277,003	558,770
Cash and cash equivalents, end of period	$ 314,570	$ 230,539
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 19,289	$ —
Loans transferred to other property owned	49,943	540
Investments transferred to loans (Note 1)	91,353	—
Change in unrealized gains (losses) on investments and derivative instruments, net	178,663	(161,423)
Employee benefit plans adjustments	169	(8)
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	$ 475,690	$ 722,437

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

Notes to the Financial Statements

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

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

The accompanying financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank). AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the Bank 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 Statements of Cash Flows and did not have a significant impact on the Financial Statements or the regulatory ratios.

The Bank 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 Bank has been identified. Certain loan pools acquired from several of the District Associations are analyzed in accordance with the selling Association's allowance methodologies for assigning general and specific allowances. 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 Bank 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 Bank 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 Bank 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 Bank'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 Bank 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 Bank 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 Bank 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 Bank 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 Bank effective June 30, 2009 (see Note 10).

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 Bank effective July 1, 2009 and had no impact on the Bank'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	1.66
Non-Agency CMOs	482,087	-	(105,799)	376,288	0.67
Asset-Backed Securities	78,548	-	(25,155)	53,393	0.49
Total	$6,797,399	$42,200	$(222,802)	$6,616,797	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
Asset-Backed Securities	124,137	-	(44,176)	79,961	3.42
Total	$6,619,348	$ 11,933	$ (367,724)	$ 6,263,557	2.23 %

Held-to-maturity

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments at September 30, 2009 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 %
Other	139,603	1,906	(8,314)	133,195	5.96
Total	$1,438,470	$ 60,727	$ (8,615)	$ 1,490,582	5.31 %

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	5.17 %
Other	219,408	6,760	(18,175)	207,993	6.13
Total	$ 1,729,600	$ 52,101	$ (18,516)	$ 1,763,185	5.29 %

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
Asset-Backed Securities	-	-	-	-	-	-	53,393	0.73	53,393	0.73
Total fair value	$ -	-	$ 652	0.89%	$ 155,004	1.61%	$ 6,461,141	1.77%	$ 6,616,797	1.77%
Total amortized cost	$ -	-	$ 657		$ 153,493		$ 6,643,249		$ 6,797,399	

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%
Other	4,538	6.34	11,366	3.19	50,771	6.61	72,928	5.92	139,603	5.96
Total amortized cost	$ 4,538	6.34%	$ 11,366	3.19%	$ 53,742	6.52%	$ 1,368,824	5.28%	$ 1,438,470	5.31%
Total fair value	$ 4,739		$ 11,715		$ 51,834		$ 1,422,294		$ 1,490,582	

AgFirst'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 $175.3 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 $413.8 million (amortized cost of $543.1 million), which represents approximately 5.10 percent (and 6.59 percent) of total fair value (and amortized cost) of the Bank'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	39,634	1,693,147	64,761
Non-Agency CMOs	12,503	2,237	363,785	103,561	376,288	105,798
Asset-Backed Securities	-	-	53,393	25,155	53,393	25,155
Other	20,536	2,393	67,585	5,921	88,121	8,314
Total	$ 1,086,636	$ 38,084	$ 3,061,340	$ 193,333	$ 4,147,976	$ 231,417

On September 30, 2009, the Bank held certain investments having continuous unrealized loss positions for more than 12 months with a fair value totaling $3.061 billion and an unrealized loss position totaling $193.3 million. The Bank 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 Bank'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 Bank 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 its portfolio, which is included in Impairment Losses on Investments in the Statements of Income.

Since the Bank 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 Statements of Income), and 2) the amount relating to all other factors ($38.3 million reflected in other comprehensive income in the 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 Bank 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 Bank 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 Bank in 2008 of $10.5 million on one ABS security.

For all investments other than the other-than-temporarily impaired securities discussed above, the Bank 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 Bank 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 Bank 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 $217.0 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:

	For the nine months ended September 30,	
(dollars in thousands)	**2009**	**2008**
Balance at beginning of period	$ 44,565	$ 2,816
Provision for (reversal of) loan losses	54,388	9,524
Charge-offs	(45,689)	(1,534)
Recoveries	34	158
Balance at end of period	$ 53,298	$ 10,964

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	$ 158,620	$ 8,954
Impaired loans with no related allowance	137,576	46,168
Total impaired loans	$ 296,196	$ 55,122
Allowance on impaired loans	$ 33,974	$ 8,752

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

(dollars in thousands)	2009	2008
Average impaired loans	$ 193,454	$ 18,574
Interest income recognized on impaired loans	483	71

NOTE 4 — FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Bank adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Bank'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 Bank'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 Bank'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 Bank'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 Bank'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 Bank compares internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

The Bank'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 Bank'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
Asset-Backed Securites	-	-	53,393	53,393
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	2,779	-	-	2,779
Total Assets	$ 2,779	$ 6,493,310	$ 429,681	$ 6,925,770
Liabilities:				
Interest rate swaps and other financial instruments	$ -	$ (19)	$ -	$ (19)
Collateral liabilities	-	23,299	-	23,299
Standby letters of credit	-	-	2,694	2,694
Total Liabilities	$ -	$ 23,280	$ 2,694	$ 25,974

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis. Non-agency CMO securities 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.

(dollars in thousands)	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2009	$ 79,961	$ -	$ 2,301
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)	393
Transfers in and/or out of level 3	-	397,320	-
Balance at September 30, 2009	$ 53,393	$ 376,288	$ 2,694

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	$ -	$ -	$ 124,646	$ 124,646	$ (47,220)
Other Property Owned	$ -	$ -	$ 31,090	$ 31,090	$ -

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Quoted market prices are generally not available for certain Systemwide Debt securities, 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	$ 21,309,191	$ 21,659,231
Derivative assets	$ 84,644	$ 84,644
Cash and cash equivalents	$ 314,570	$ 314,570
Investment securities	$ 8,055,267	$ 8,107,379
Assets held in trust funds	$ 2,779	$ 2,779
Financial liabilities:		
Systemwide Debt Securities	$ 28,068,052	$ 28,214,211
Derivative liabilities	$ (19)	$ (19)

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

A. **Loans:** Because no active market exists for the Bank's loans, fair value is estimated by discounting the expected future cash flows using the Bank'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 values 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. **Systemwide Debt Securities:** 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 spread relationship between Systemwide bonds and notes and comparable Treasury notes.

E. **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.

F. **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.

There are no material claims pending against the Bank in which money damages are asserted.

NOTE 7 — EMPLOYEE BENEFIT PLANS

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

	For the nine months ended September 30,	
(dollars in thousands)	**2009**	**2008**
Pension	$ 6,363	$ 1,673
401k	668	602
Other postretirement benefits	663	647
Total	$ 7,694	$ 2,922

The following table includes only non-qualified retirement and other postretirement benefit contributions for the Bank. 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	$ 189	$ 67	$ 256
Other postretirement benefits	687	236	923
Total	$ 876	$ 303	$ 1,179

As of September 30, 2009, no contributions have been made for 2009 by the Bank to the qualified District pension plan in which the Bank participates. Actuarial calculations as of the last plan measurement date (December 31, 2008) projected total contributions of $52.0 million to the qualified District pension plan for all participating institutions for 2009. The funding policy for this plan is to fund the accumulated benefit obligation (ABO) service cost plus the seven year amortization of the unfunded ABO using the discount rate determined as of December 31st of the preceding year. This aggregate contribution will be allocated to the participating District institutions, including the Bank, 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 Bank 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 Bank 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 Bank'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 Bank's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The Bank 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 Bank 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 Bank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the Bank if floating rate borrowings were made directly. Under interest rate swap arrangements, the Bank 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 Bank 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 Bank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank'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 Bank, thus creating a repayment risk for the Bank. When the fair value of the derivative contract is negative, the Bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the Bank 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 Bank does not anticipate nonperformance by any of these counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank 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 Bank had not posted collateral with respect to these arrangements.

The Bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of the Bank'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 Bank'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 Bank 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 – SUBSEQUENT EVENTS

The Bank has evaluated subsequent events and has determined there are none requiring disclosure through November 6, 2009, which is the date the financial statements were available to be issued.