AgFirst Farm Credit Bank

2009 ANNUAL REPORT

Keepin' it rural for nearly a century.

KEEPIN' IT RURAL

To us, "keepin' it rural" means more than pickup trucks, blue jeans and cowboy hats. It means we are dedicated to Farm Credit's mission of improving the quality of life in rural America. As we carry out that mission at AgFirst, we are guided by our core values: leadership, integrity, performance, service, diversity and kinship. Sprinkled throughout this report, you'll find beautiful images of the rural America we love and learn more about our core values.

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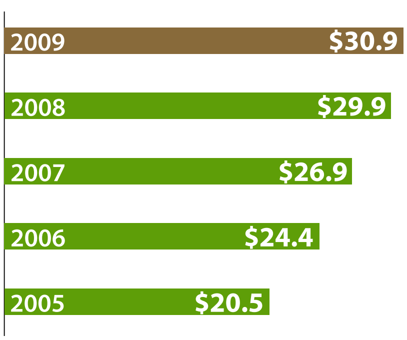
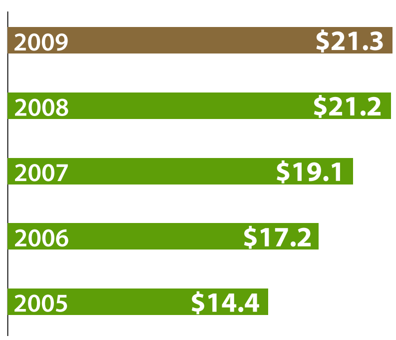
FIVE-YEAR SUMMARY of Selected Consolidated Financial Data

(dollars in thousands)	2009	2008	2007	2006	2005
	As of or for the year ended December 31,				
Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 938,884	$ 277,003	$ 558,770	$ 582,764	$ 557,882
Investment securities	8,226,209	7,993,157	6,908,797	6,358,682	5,255,745
Loans	21,327,319	21,239,330	19,114,517	17,152,337	14,411,050
Less: allowance for loan losses	32,292	44,565	2,816	463	10,114
Net loans	21,295,027	21,194,765	19,111,701	17,151,874	14,400,936
Other property owned	25,909	540	—	—	—
Other assets	381,515	445,586	347,353	318,844	268,468
Total assets	$ 30,867,544	$ 29,911,051	$ 26,926,621	$ 24,412,164	$ 20,483,031
Obligations with maturities of one year or less	$ 14,306,748	$ 14,037,745	$ 11,353,878	$ 10,005,004	$ 7,613,499
Obligations with maturities greater than one year	14,755,466	14,407,214	13,890,262	13,001,073	11,607,104
Mandatorily redeemable preferred stock	225,000	225,000	225,000	225,000	225,000
Total liabilities	29,287,214	28,669,959	25,469,140	23,231,077	19,445,603
Perpetual preferred stock	400,000	400,000	400,000	150,000	150,000
Capital stock and participation certificates	438,707	434,929	364,759	313,353	224,554
Retained earnings					
Allocated	965	805	705	—	—
Unallocated	863,862	762,550	730,724	715,753	665,445
Accumulated other comprehensive income (loss)	(123,204)	(357,192)	(38,707)	1,981	(2,571)
Total shareholders' equity	1,580,330	1,241,092	1,457,481	1,181,087	1,037,428
Total liabilities and shareholders' equity	$ 30,867,544	$ 29,911,051	$ 26,926,621	$ 24,412,164	$ 20,483,031

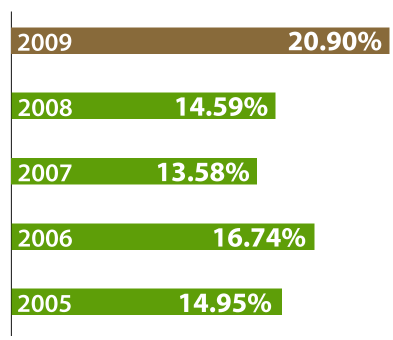
TOTAL ASSETS
in billions



LOANS
in billions

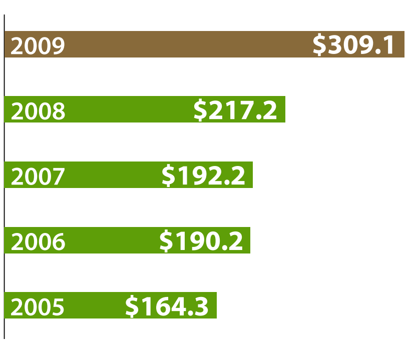


RETURN ON SHAREHOLDERS' EQUITY

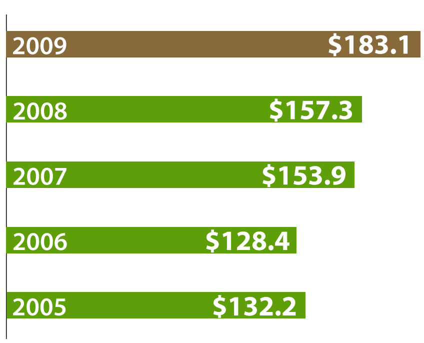


(dollars in thousands)	As of or for the year ended December 31, 2009	2008	2007	2006	2005
Consolidated Statement of Income Data					
Net interest income	$ 489,661	$ 366,521	$ 260,878	$ 227,512	$ 204,201
Provision for (reversal of allowance for) loan losses	46,648	43,342	2,481	(7,337)	(4,995)
Noninterest income (expense), net	(133,870)	(106,012)	(66,188)	(44,656)	(44,937)
Net income	$ 309,143	$ 217,167	$ 192,209	$ 190,193	$ 164,259
Consolidated Key Financial Ratios					
Rate of return on average:					
Total assets	1.03%	0.76%	0.76%	0.86%	0.91%
Total shareholders' equity	20.90%	14.59%	13.58%	16.74%	14.95%
Net interest income as a percentage of average earning assets	1.66%	1.29%	1.04%	1.04%	1.14%
Net (chargeoffs) recoveries to average loans	(0.278)%	(0.008)%	(0.001)%	(0.015)%	0.002%
Total shareholders' equity to total assets	5.12%	4.15%	5.41%	4.84%	5.06%
Debt to shareholders' equity (:1)	18.53	23.10	17.47	19.67	18.74
Allowance for loan losses to loans	0.15%	0.21%	0.015%	0.003%	0.07%
Permanent capital ratio	16.86%	17.15%	20.59%	19.19%	23.90%
Total surplus ratio	16.83%	17.11%	20.54%	19.14%	23.84%
Core surplus ratio	9.85%	10.43%	13.04%	11.46%	14.15%
Collateral ratio	105.66%	105.56%	106.02%	105.28%	105.70%
Net Income Distribution					
Cash distributions	$ 183,116	$ 157,278	$ 153,894	$ 128,440	$ 132,230
Perpetual preferred stock dividend	27,413	27,413	19,501	10,950	10,950

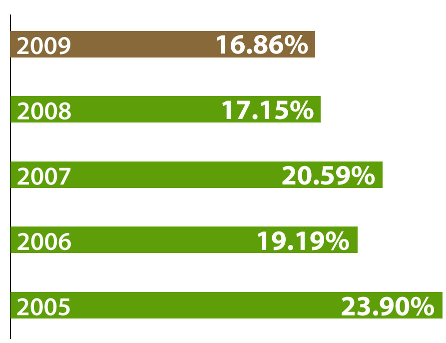
NET INCOME
in millions



CASH DISTRIBUTION
in millions

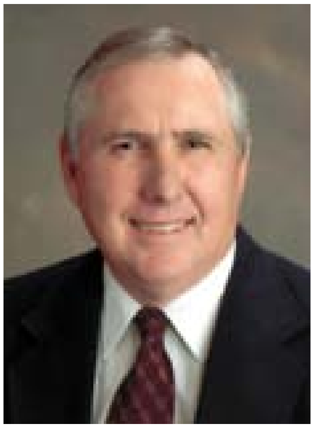


PERMANENT CAPITAL RATIO



MESSAGE

from the Chairman of the Board and the Chief Executive Officer



Paul M. House
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

In 2009, the nation's economy struggled through one of the worst recessions since the Great Depression. A drop in consumer demand for goods and services weakened the economy, resulting in high unemployment. Banks and other financial institutions suffered tremendous losses, contributing to a "credit crunch" that further slowed economic growth.

Unlike many financial institutions, AgFirst was prepared for the downturn in the economy. While we certainly experienced deterioration in credit quality in 2009, we also maintained our strong capital levels and had record earnings. Once again, we distributed a significant portion of those earnings to our Association stockholders.

Growth and Credit Quality

Farm net cash income declined from its record level in 2008 to an estimated $71 billion in 2009, a drop of $27 billion. While crop farmers generally experienced an excellent year with high yields and satisfactory prices, conditions were not so favorable for dairy, livestock, and poultry producers. High feed costs and low commodity prices caused significant losses for dairy and swine operations. Weak demand for new housing also adversely affected the timber industry.

During 2009, our credit quality weakened as expected. Deterioration largely in a handful of participation loans led to provisions for loan loss of $47 million and net charge-offs of $59 million. We expect some further credit deterioration before any improvement in 2010, but—with our solid capital levels, experienced staff, and stable base of earnings—we are well-positioned to effectively manage this adversity.

The fact that we maintained sound underwriting practices throughout the "good times" makes us confident that we will be able to weather the current financial storm. That is important to us because our goal—moreover, our mission—is to be a reliable source of funding for our affiliated Associations in good times and bad. This enables our Associations to meet their mission of providing sound, constructive credit to creditworthy borrowers on a consistent basis.

Earnings and Capital

As was true the previous year, falling interest rates in 2009 enabled us to call a significant amount of fixed-rate debt and replace that called debt with less expensive funding. This, combined with moderate balance sheet growth, resulted in net interest income of $490 million in 2009, a 34 percent or $123 million increase compared to 2008. Net income was $309 million in 2009, compared to $217 million in 2008.

Our 2009 earnings level enabled us to distribute record patronage of over $183 million, most of which was returned to the 22 Associations we serve. As our earnings flowed to the Associations and on to their borrowers, they enriched the economies of rural communities throughout our 15 states and Puerto Rico.

Strategic Initiatives

Despite the year's challenges, we maintained the focus on our strategic initiatives. These initiatives are designed to improve the Bank's service and performance levels and create efficiencies in Association operations. In 2009, we:

- Introduced enhancements to our key loan origination and customer service applications, including Credit Delivery, Customer Relation Management (CRM), AgriGate, and Imaging.
- Implemented enhancements to AccountAccess and our Online Loan Application.
- Implemented a new Web-based training curriculum for Young, Beginning, and Small (YBS) Farmers. This curriculum, a part of our Farm Credit University program, will enable YBS farmers across the nation to learn farm financial management practices that will help their operations succeed.
- Increased the number of affiliated Associations that are using our "expanded services." These services range from loan and general accounting to information and technology management. By taking advantage of the economies of scale that AgFirst can offer, Associations can reduce their costs and improve service to their members.

Meeting our Mission

The Associations we serve are fulfilling their primary mission to finance creditworthy farmers, ranchers, agribusinesses, and rural homeowners. AgFirst is supporting this mission by providing reliable funding and superior services to the Associations.

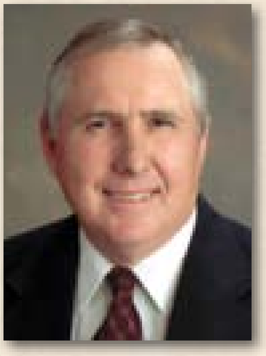
As we look forward to 2010, we see the economy beginning to strengthen. In the meantime, we are well-positioned to meet the challenges that will continue into 2010. We will continue to "keep it rural," meeting our mission to furnish sound, adequate, and constructive credit to those who live and work in rural America.

Paul M. House
Chairman of the Board

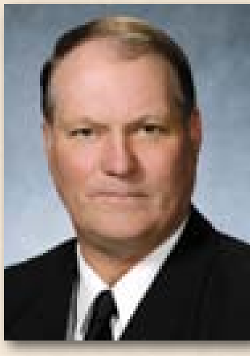
F. A. Lowrey
Chief Executive Officer

March 12, 2010

BOARD OF DIRECTORS



Paul M. House
Chairman

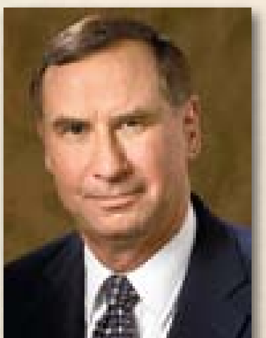


M. Wayne Lambertson
Vice Chairman

Gary L. Alexander

Jack W. Bentley, Jr.

Bonnie V. Hancock



James L. May

Bobby E. McCollum, Jr.

Eugene W. Merritt, Jr.

James M. Norsworthy III

Katherine A. Pace

Core Values

LEADERSHIP

We mentor, motivate and develop employees to prepare them to contribute to the success of our customers and our company.

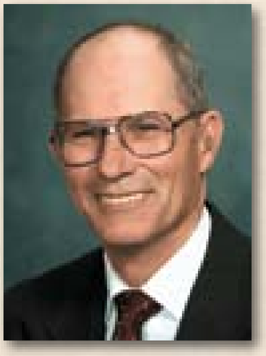

Dale R. Hershey


Robert L. Holden, Sr.


Thomas W. Kelly


Lyle Ray King

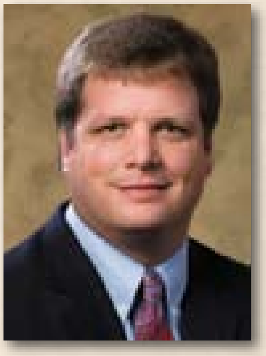

S. Alan Marsh


Walter L. Schmidlen, Jr.


Robert G. Sexton


Robert H. Spiers, Jr.


William H. Voss


J. Mark Wheeler

Core Values

INTEGRITY

Our principles guide us to do the right thing. We treat each other with respect, fairness and honesty.

AGFIRST PROFILE

Who we are and what we do

AgFirst is a member of the Farm Credit System, the largest agricultural lending organization in the United States. We provide funding and services to 22 Agricultural Credit Associations (ACAs or Associations) in 15 eastern states and Puerto Rico. The ACAs, in turn, provide financing to more than 80,000 farmers, ranchers, rural homeowners and agribusinesses. We also operate a Capital Markets Unit, which arranges and participates in loans for agribusinesses, and a Correspondent Lending division, which buys, sells and services rural home and agricultural loans throughout the United States.

How we are organized and funded

AgFirst is owned by its affiliated ACAs. The ACAs benefit from their ownership of AgFirst in two important ways. In the delivery of funding and services to all 22 ACAs, AgFirst achieves economies of scale that could not be achieved by the Associations individually. In addition, AgFirst shares its profits with the Associations through patronage refunds. The patronage refunds we pay our Associations reduce their cost of borrowing and, ultimately, their borrowers' cost of borrowing.

Like all banks in the Farm Credit System, AgFirst obtains its funds through the sale of notes and bonds to the investing public. Because the system issues large volumes of securities and its securities carry agency status, the Associations we serve enjoy a dependable and competitively priced source of funding.

What we deliver

Through their affiliation with AgFirst, the ACAs have access to a broad range of financial tools that allows them to compete in today's global economy. These tools include:

- Lines of credit that enable borrowers to take advances at their choice of Prime, LIBOR or fixed rate.
- Credit Delivery, a loan origination system developed by AgFirst and used by all 22 of our member-associations.
- AgriLine®, an automated system that enables borrowers to write their own loan advances by check.
- FastCash, a product that enables Associations to send loan advances to their borrowers' checking accounts overnight through the Automated Clearing House system.
- AutoDraft, a service that automatically drafts borrowers' loan payments.
- AccountAccess, an online service that provides loan and payment information to borrowers via a secure Internet site, and LoanLine, a service that provides the same information by telephone.
- AutoBorrow, a cash management product for commercial borrowers developed by AgFirst in partnership with Bank of America.
- AgSweep, a cash management product for commercial borrowers developed by AgFirst in partnership with Wachovia.

These products and services have helped our Associations grow and gain market share throughout their chartered territories.

AgFirst Farm Credit Bank is located in downtown Columbia, S.C.

REPORT OF MANAGEMENT

The accompanying Consolidated Financial Statements and related financial information appearing throughout this annual report have been prepared by management of AgFirst Farm Credit Bank (Bank) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the Consolidated Financial Statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all Consolidated Financial Statements, and that the assets of the Bank are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Bank maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Audit Committee of the Board of Directors and to the Chief Executive Officer.

AgFirst has a Code of Ethics for its Chief Executive Officer, Senior Financial Officers, and other Senior Officers who are involved with preparation and distribution of financial statements and maintenance of the records supporting the financial statements. A copy of the AgFirst Code of Ethics may be viewed on the Bank's website at www.agfirst.com.

The Consolidated Financial Statements have been examined by independent auditors, whose report appears elsewhere in this Annual Report. The Bank is also subject to examination by the Farm Credit Administration.

The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition of the Bank. The undersigned certify that we have reviewed the 2009 Annual 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
Chairman of the Board

F. A. Lowrey
President & Chief Executive Officer

Charl L. Butler
Senior Vice President & Chief Financial Officer

March 12, 2010

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

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the 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 Consolidated Financial Statements.

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 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's management concluded that as of December 31, 2009, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank's management determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2009.

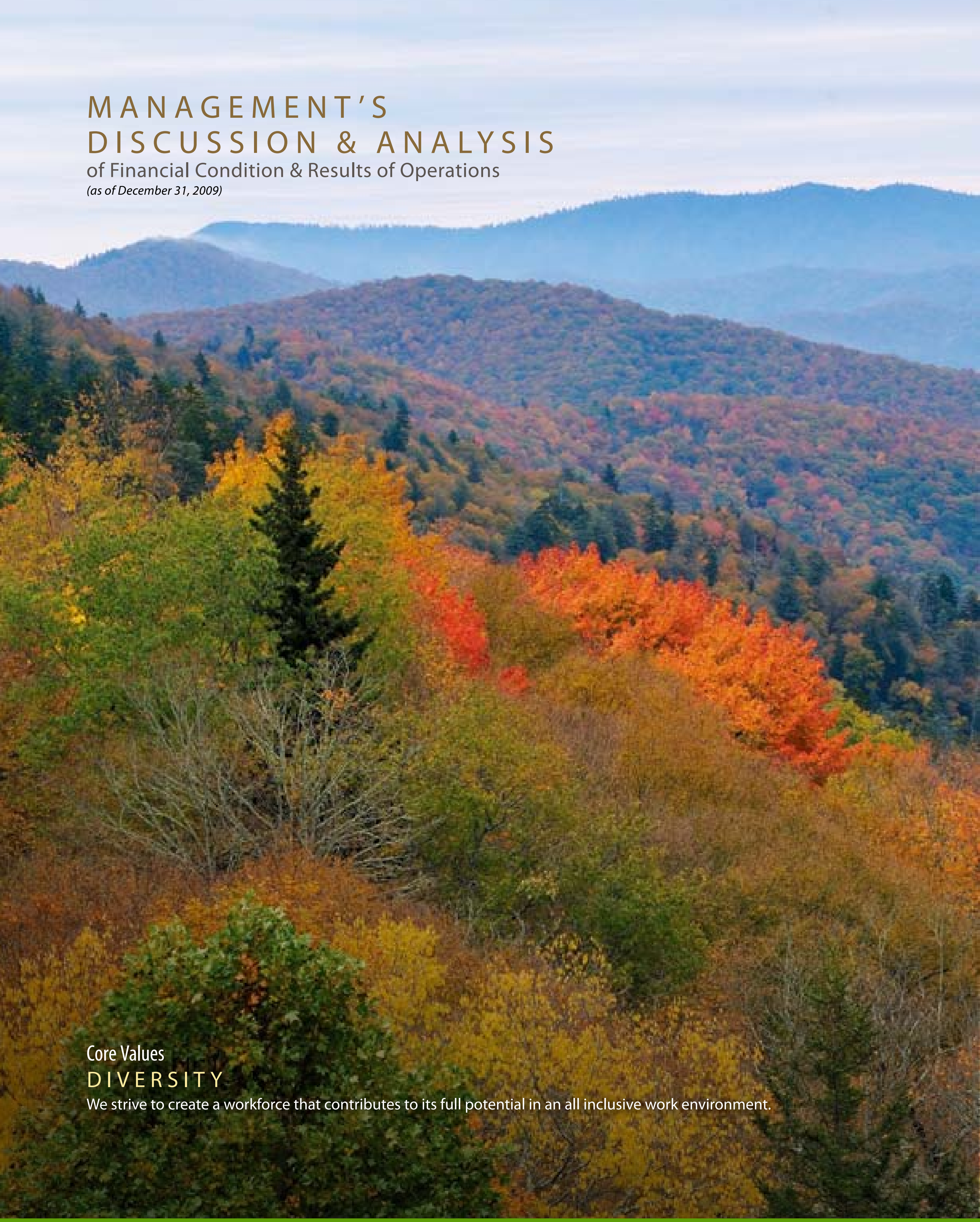
F. A. Lowrey

F.A. Lowrey
President & Chief Executive Officer

Charl L. Butler

Charl L. Butler
Senior Vice President & Chief Financial Officer

March 12, 2010



MANAGEMENT'S DISCUSSION & ANALYSIS

of Financial Condition & Results of Operations

(as of December 31, 2009)

Core Values

DIVERSITY

We strive to create a workforce that contributes to its full potential in an all inclusive work environment.

AgFirst Farm Credit Bank (the Bank or AgFirst) is one of the banks of the Farm Credit System (the System), a nationwide system of cooperatively owned banks and associations. The System was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act).

The nation is currently served by four Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), each of which has specific lending authorities within its chartered territory. The ACB also has certain additional specific nationwide lending authorities. AgFirst is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of the states of Ohio, Tennessee, Kentucky and Louisiana.

Each FCB and the ACB serve one or more of either Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that originate both long-term and short- and intermediate-term loans. PCAs, FLCAs and ACAs are collectively referred to as associations. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District (District). The Associations are structured as cooperatives in which each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations jointly own all of AgFirst's voting stock. As of December 31, 2009, the District consists of the Bank and twenty-two District Associations. All twenty-two are structured as ACA holding companies, with FLCA and PCA subsidiaries.

The following commentary reviews the Consolidated Financial Statements of condition and results of operations of AgFirst as of and for the years ended December 31, 2009, 2008 and 2007. This information should be read in conjunction with the accompanying Consolidated Financial Statements, the Notes to the Consolidated Financial Statements and other sections of this Annual Report. The Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Bank's Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" included in this Annual Report. See Note 1, *Organization and Operations*, in the Notes to the Consolidated Financial Statements for a discussion of the operations of AgFirst.

FORWARD-LOOKING INFORMATION

This Annual Report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from AgFirst's expectations and predictions due to a number of risks and uncertainties, many of which are beyond AgFirst's control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, and economic conditions and developments in the United States and abroad;

- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors, as well as in the general economy;

- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;

- changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving other government-sponsored enterprises and other financial institutions; and

- actions taken by the Federal Reserve System in implementing monetary and fiscal policy, as well as other policies and actions of the Federal government that impact the financial services industry and the debt markets.

AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of AgFirst's business. References to the USDA information in this section refer to the entire U.S. agricultural market and are not limited to AgFirst.

The February 2010 USDA forecast estimates that 2009 farmers' net cash income, which is a measure of the cash income after payment of business expenses, decreased to $70.8 billion, down $26.7 billion from 2008, but only down $2.1 billion from its 10-year average of $72.9 billion. The USDA forecasts 2010 farmer's net cash income to increase to $76.3 billion, a $5.5 billion increase from 2009, and $3.4 billion above the 10-year average. Contributing to this increase in farmers' net cash income are increases in livestock receipts of $11.5 billion and in farm-related income of $900 million, offset by a decrease in crop receipts of $6.0 billion, an increase in cash expenses of $400 million, and a decline in direct government payments of $500 million.

During 2009, crop prices and prices for livestock animals and products declined from 2008 levels. Demand for exports was curtailed and farmers were forced to accept prices lower than previously anticipated. The USDA's 2010 forecast reflects expected improvement in economic conditions for livestock producers. During a recession, consumers limit their consumption of higher cost items such as meat, milk, and eggs, or buy lower priced products. With the U.S. economy stabilizing or showing signs of improvement, consumers are expected to increase consumption of animal products, thus improving earnings of livestock producers.

The following table sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2006 to December 31, 2009:

Commodity	12/31/09	12/31/08	12/31/07	12/31/06
Corn	$3.59	$4.11	$3.76	$3.01
Soybeans	$9.80	$9.24	$10.00	$6.18
Wheat	$4.85	$5.95	$7.74	$4.52
Beef Cattle	$78.60	$79.70	$88.90	$83.10

The USDA's February 2010 income outlook shows a great deal of variation depending on farm size, geographic location, and commodity specialties. The USDA classifies all farms into three primary categories: commercial farms, intermediate farms, and rural residential farms. Commercial farms represent about 10 percent of U.S. farms by number and represent 80 percent of total U.S. farm production. Commercial farms are expected to have an 11 percent increase in average net cash income in 2010. Intermediate farms, defined as ones in which the primary occupation is farming and gross sales are between $10 thousand and $250 thousand, represent 30 percent of U.S. farms by number and account for 18 percent of total production. The remaining 60 percent of U.S. farms are classified as rural residential farms where the primary occupation is not farming and the farms produce less than $10 thousand in products. Rural residential farms only account for 2 percent of total production.

In addition to farmers' net cash income, off-farm income is an important source of income for the repayment of farm debt obligations and is less subject to cycles in agriculture. However, off-farm income can be directly affected by conditions in the general economy. The USDA measures farm household income, which is defined as earnings from farming activities plus off-farm income. Nearly 100 percent of farm household income for operators of rural residential farms and more than 90 percent of farm household income for intermediate farms is generated from off-farm sources. Further, USDA data suggests that approximately 25 percent of farm household income for commercial farms is generated from off-farm income. The USDA predicts 2009 farm household income to decrease 15 percent for commercial farms and 19 percent for intermediate farms.

According to the USDA February 2010 forecast, farm sector asset values are expected to decline 3.5 percent from $1.944 trillion in 2009 to $1.876 trillion for 2010, reflecting lower expected returns on farm investments. The values of land, machinery/equipment, and crop inventories are expected to decline in 2010, while the values of financial assets and of purchased input inventories are expected to rise. Farmers' equity (farm business assets minus debt) is expected to decline 3 percent from $1.694 trillion in 2009 to $1.643 trillion in 2010, largely due to the declines in asset values.

One measure of the financial health of the agricultural sector used by the USDA is the assessment of farmers' utilization of their capacity to repay debt (actual debt as a percentage of maximum debt that can be supported by farmers' current income). Higher capacity utilization rates indicate tighter cash flow positions and, consequently, higher exposure to financial risk. These estimates do not take into account, however, off-farm income sources. Since 1970, debt repayment capacity utilization has ranged from a low of 35.8 percent in 1973 to a high of 104.1 percent in 1981, and has remained relatively stable since 1987, averaging about 50.0 percent. During 2009, repayment capacity utilization increased significantly above the 50.0 percent average due to the decline in farmers' net cash income. The USDA suggests a decrease in the use of repayment capacity from 70.0 percent in 2009 to 60.9 percent in 2010.

As estimated by the USDA, the Farm Credit System's market share of farm business debt, defined as debt incurred by those involved in on-farm agricultural production, grew to 39.0 percent at December 31, 2008, as compared with 28.3 percent at December 31, 2000. Farm business debt is forecasted to fall in 2010 from the 2009 level by approximately 6.8 percent. The USDA's forecast of declining debt is due to continued softening of farmland values due to lower expected earnings on farm investments, tighter credit, and greater overall market uncertainty.

In general, agriculture has experienced a sustained period of favorable economic conditions, due to stronger commodity prices, higher land values, and, to a lesser extent, government support programs. To date, AgFirst's financial results have remained favorable as a result of these conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, AgFirst's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general and agricultural economy have become more volatile with the recent instability in the global financial markets and recent declines in commodity prices. Certain agriculture sectors, as described more fully in this *Management Discussion and Analysis*, experienced significant financial stress during 2009 and could continue to experience financial stress in 2010. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Consideration of AgFirst's significant accounting policies is critical to the understanding of the Bank's results of operations and financial position because some accounting policies require complex or subjective judgments and estimates that may affect the value of certain assets or liabilities as well as the recognition of certain income and expense items. In many instances, management has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical accounting policies:

- *Allowance for loan losses* — The allowance for loan losses is management's best estimate of the amount of probable losses existing in and inherent in the Bank's loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, and geographic, industry, and other factors. In addition to the allowance for loan losses attributable to specific loans, the Bank may also establish a general allowance for loan losses based on management's assessment of risk inherent in the loans in the Bank's portfolio that were not specifically evaluated. In establishing general reserves, factors affecting certain commodity types or industries may be taken into consideration, as well as other factors previously discussed. Certain loan pools purchased from various Associations are analyzed in accordance with the selling Associations' allowance methodologies for assigning general and specific allowances. Allowances are established on these pools based on that analysis after Bank management's determination that the methodologies employed are appropriate.

Assessing the appropriateness of the allowance for loan losses is a dynamic process. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the level of the allowance for loan losses and have a direct impact on the provision for loan losses and the results of operations.

The overall adequacy of the allowance for loan losses is validated further based on periodic evaluations of the loan portfolio, which generally consider recent historical charge-off experiences adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable active market exists. Management utilizes third party valuation services to obtain fair value prices for the majority of the Bank's investment securities. Management also utilizes significant estimates and assumptions to value items for which an observable active market does not exist. Examples of these items include: impaired loans, certain derivatives, certain investment securities and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on the Bank's results of operations.

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including the expected long-term rate of return on plan assets and a discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of future benefit obligations. The discount rate for 2009 was selected by reference to analysis and yield curves developed by the plans' actuary and industry norms. The yield curve selected follows the accounting guidance that the basis for discount rates should be higher-quality zero-coupon bonds with durations that match the expected cash flows of the plans that underlie the obligation.

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 at December 31:

AgFirst Loan Portfolio

(dollars in thousands)	2009		2008		2007	
Direct Notes	$ 14,890,793	69.82%	$ 14,997,151	70.61%	$ 14,602,548	76.40%
Participations/Syndications Purchased, net	4,758,466	22.31	4,925,744	23.19	3,470,300	18.15
Correspondent Lending	1,671,060	7.84	1,309,285	6.16	1,039,449	5.44
Loans to OFIs	7,000	0.03	7,150	0.04	2,220	0.01
Total	$ 21,327,319	100.00%	$ 21,239,330	100.00%	$ 19,114,517	100.00%

The diversification of the AgFirst loan volume by type for each of the past three years at December 31 is shown below:

(dollars in thousands)	2009		2008		2007	
Direct Notes	$ 14,890,794	69.82 %	$ 14,997,151	70.61 %	$ 14,602,548	76.40 %
Production and Intermediate-Term	1,708,861	8.01	1,739,357	8.19	1,101,145	5.76
Real Estate Mortgage	1,686,948	7.91	1,615,851	7.61	1,125,319	5.89
Rural Residential Real Estate	1,548,829	7.26	1,188,843	5.60	915,874	4.79
Processing and Marketing	773,263	3.63	893,794	4.21	676,722	3.54
Energy	304,517	1.43	220,361	1.04	170,932	0.90
Loans to Cooperatives	181,336	0.85	276,987	1.30	293,009	1.53
Communication	104,208	0.49	155,813	0.73	87,912	0.46
Farm-Related Business	59,173	0.28	78,324	0.37	78,054	0.41
Water/Waste Disposal Loans	28,000	0.13	28,000	0.13	20,000	0.10
Lease Receivables	9,121	0.04	11,751	0.06	17,826	0.09
Loans to OFIs	7,000	0.03	7,150	0.03	2,220	0.01
Other (including Mission Related)	25,269	0.12	25,948	0.12	22,956	0.12
Total	$ 21,327,319	100.00 %	$ 21,239,330	100.00 %	$ 19,114,517	100.00 %

Total loans outstanding were $21.33 billion at December 31, 2009, an increase of $88.0 million, or 0.41 percent, compared to total loans outstanding at December 31, 2008. Loans outstanding at the end of 2008 had increased $2.12 billion, or 11.12 percent, compared to December 31, 2007. In late 2008, the Bank's loan demand, which had been very strong for several years, slowed dramatically. This trend continued into 2009, resulting in no material change in total loans outstanding over the latest twelve month period.

The downturn in the general economy that started in 2008 continued into 2009 and served to weaken overall loan demand with borrowers limiting capital spending and preserving capital. Lower commodity price levels coupled with cost cutting measures have also resulted in lesser loan demand in several segments. Future loan demand is difficult to predict. However, the growth rate of the loan portfolio is expected to remain at a moderate level through the first half of 2010.

Credit quality deterioration, which began in the second quarter 2008, continued in 2009 and was caused by a number of different factors. The primary factors were: higher input costs for the meat and ethanol sectors which began moderating in 2009, over supply for the pork and dairy sectors, and the restrictive effects of the recession on the general economy, including housing and employment. The ethanol sector is improving due to lower input costs. However, the pork and housing-related industries (timber, sawmills, nurseries, etc.) remain stressed. Oversupply in the pork and dairy sectors seems to be easing, and conditions are expected to improve in 2010 after a very difficult 2009.

Declining real estate values in 2009 negatively impacted the credit quality of certain loans secured by transitional agricultural real estate. Transitional agricultural real estate is defined as agricultural land, usually lying in the path of economic development, where the land value cannot be supported solely by agricultural activity.

Each loan in the Bank's portfolio is classified according to a Uniform Classification System, which is used by all System institutions. Below are the classification definitions.

- *Acceptable* – Assets are expected to be fully collectible and represent the highest quality.
- *Other Assets Especially Mentioned (OAEM)* – Assets are currently collectible but exhibit some potential weakness.
- *Substandard* – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- *Doubtful* – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- *Loss* – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of AgFirst loans including accrued interest at December 31:

AgFirst Loans Credit Quality	2009	2008	2007
Acceptable	86.60%	95.57%	98.75%
OAEM	9.48	3.44	1.14
Adverse*	3.92	0.99	0.11
Total	100.00%	100.00%	100.00%

* *Adverse loans include substandard, doubtful, and loss loans.*

Continued weakness in the general economy and the resulting high rate of unemployment could further compromise the credit quality of part-time farmers and certain other segments of the loan portfolio. 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 its borrowers and anticipates that credit quality in 2010 will continue to be negatively impacted by general economic conditions.

Direct Notes

AgFirst's primary line of business is to provide funds to District Associations. Each Association is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (FCA). AgFirst has a revolving line of credit, referred to as a Direct Note, in place with each of the Associations. Each of the Associations funds its lending and general corporate activities primarily by borrowing under its Direct Note. All assets of the Associations secure the Direct Notes. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations. Each GFA contains minimum liquidity, capital, and earnings requirements that must be maintained by the Association. Refer to Note 1, *Organization and Operations*, in the Notes to the Consolidated Financial Statements for further discussion.

Earnings for the combined Associations totaled $238.1 million, $381.8 million, and $348.2 million, producing an average return on assets of 1.31 percent, 1.69 percent, and 2.22 percent, and an average return on equity of 8.44 percent, 11.06 percent, and 14.59 percent for 2009, 2008, and 2007, respectively.

AgFirst provides each Association with core operating systems and support, including a loan origination system, loan accounting and servicing systems, general ledger and related financial accounting systems, and a human resources/payroll system. With AgFirst providing such systems and other services, the Associations are able to achieve operating efficiencies ordinarily afforded to much larger organizations. In addition, having common systems supported by AgFirst provides an opportunity to automate the AgFirst/Association lending process. One of the most significant advantages of this is a match-funding mechanism that automatically creates Direct Note advances that match the repricing and maturity characteristics of each underlying Association loan. The Association's interest rate risk is significantly reduced by employing this system.

Ultimately, the Associations' ability to repay their Direct Note obligations is significantly dependent upon the repayment of loans made to their borrowers. Accordingly, AgFirst's direct and indirect credit exposure depends upon the creditworthiness of both the Associations that are direct borrowers and the underlying borrowers of the Associations as indirect borrowers of AgFirst.

AgFirst continually monitors the risk-bearing capacity of each Association through a variety of mechanisms, including testing of the reliability of the Association's risk ratings assigned to each of their loans, periodic meetings with the Association's Management and Board, semi-annual formalized risk assessments, and prior-approval of loan transactions that exceed the Association's delegated lending authority (which is determined by AgFirst).

All Associations are subject to an annual audit by independent auditors and periodic examination by FCA. Each Association is required by regulatory mandate to perform continuous internal credit, appraisal, and audit reviews. Litigation in which Associations are involved is typically loan related and poses no material threat to their viability.

As of December 31 2009, fifteen of the twenty-two District Associations' Direct Notes, representing 86.13 percent of the Direct Note portfolio, were classified acceptable. Six of the remaining Direct Notes, representing 11.26 percent of the portfolio, were classified as Other Assets Especially Mentioned (OAEM) and one of the Direct Notes, representing 2.61 percent of the portfolio, was classified as substandard (adverse). The substandard classification was based on a number of considerations, including guidance from the Bank's regulator. As discussed elsewhere in this report, all of the assets of the various Associations secure the Direct Notes. The risk funds of an Association, including both capital and the allowance for loan losses, protect the interest of the Bank should a Direct Note default. Therefore, none of the Direct Notes are considered impaired. All twenty-two of the Direct Notes are performing.

Sixteen Associations met or exceeded the minimum GFA requirements for borrowing base margin, earnings, and capital as of December 31, 2009. As of December 31, 2009, three Associations were in violation of earnings minimum requirements as defined in the GFA, two Associations were in violation of borrowing base and earnings minimum GFA requirements, and one Association was in violation of earnings and capital minimum GFA requirements. In early 2010, following a review of the respective business plans submitted by these six Associations to achieve compliance with the covenants, the Bank approved temporary waivers of the defaults and allowed these six Associations to continue operating under special credit arrangements pursuant to their respective GFA.

Associations employ a number of risk management techniques to limit credit exposures. Each Association has adopted underwriting standards, individual borrower exposure limits, commodity exposure limits, and other risk management techniques. AgFirst and the Associations actively purchase and sell loan participations to achieve diversified portfolios. Some Associations utilize guarantees from U.S. government agencies/departments, including the Federal Agricultural Mortgage Corporation (Farmer Mac), the Farm Service Agency, and the Small Business Administration to further limit credit exposures. At December 31, 2009, Associations collectively had $1.46 billion under such government or government-sponsored enterprise (GSE) guarantee programs, compared to $1.46 billion at December 31, 2008.

Credit quality within the combined Associations' portfolios showed a decline during the twelve months ended December 31, 2009. At year-end, the combined Associations' loans including accrued interest were classified as follows:

District Associations Credit Quality	2009	2008	2007
Acceptable	86.99%	92.26%	95.23%
OAEM	6.20	3.66	3.01
Adverse*	6.81	4.08	1.76
Total	100.00%	100.00%	100.00%

** Adverse loans include substandard, doubtful, and loss loans.*

Delinquencies (loans 90 days or more past due) were 1.71 percent of the combined Association total loan assets at year-end 2009 compared to 0.82 percent and 0.39 percent at year-end 2008 and 2007, respectively.

Nonperforming assets for the combined Associations represented 3.57 percent of total loan assets or $606.6 million, compared to 2.32 percent or $395.8 million for 2008, and 0.68 percent or $111.1 million for 2007. Nonperforming assets consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned.

Association net loan charge-offs of $77.9 million, $29.2 million and $3.4 million were recognized in 2009, 2008, and 2007, respectively. As a percentage of total average loan assets, net charge-offs for the combined Associations were 0.46 percent for 2009 compared to 0.17 percent and 0.02 percent in 2008 and 2007, respectively. Each Association maintains an allowance for loan losses determined by its management based upon its unique situation.

The following table illustrates the risk bearing capacity of the Associations at December 31, 2009:

Association	Regulatory Permanent Capital Ratio	Regulatory Core Surplus Ratio	Regulatory Total Surplus Ratio	Allowance/ Loans
AgCarolina Financial	15.54%	13.22%	13.22%	1.16%
AgChoice	12.47%	10.30%	11.61%	0.87%
Ag Credit	17.19%	13.89%	15.51%	0.84%
AgGeorgia	13.75%	10.47%	13.50%	0.84%
AgSouth	14.55%	10.35%	14.12%	0.63%
ArborOne	15.01%	11.55%	14.57%	0.43%
Cape Fear	13.20%	12.84%	12.84%	1.36%
Carolina	14.54%	11.71%	13.88%	0.79%
Central Florida	15.89%	13.05%	15.23%	1.61%
Central Kentucky	11.73%	9.82%	10.58%	1.05%
Chattanooga *	12.96%	3.44%	10.91%	1.13%
Colonial	16.27%	15.54%	15.54%	1.08%
Farm Credit of the Virginias	12.08%	10.79%	10.79%	0.75%
First South	12.52%	10.21%	11.37%	0.64%
Jackson Purchase	14.84%	12.92%	13.95%	1.15%
MidAtlantic	13.96%	12.93%	13.50%	0.92%
North Florida	13.50%	12.88%	13.16%	0.78%
Northwest Florida	13.26%	12.45%	13.02%	1.98%
Puerto Rico	17.39%	17.06%	17.06%	1.15%
South Florida	15.63%	15.58%	15.58%	2.03%
Southwest Florida	14.43%	10.85%	14.17%	1.30%
Southwest Georgia	13.93%	10.74%	13.53%	1.45%

The minimum regulatory capital ratios for System banks and associations are 7.00 percent for the permanent capital ratio, 3.50 percent for the core surplus ratio, and 7.00 percent for the total surplus ratio.

* This Association did not meet the regulatory minimum core surplus ratio of 3.50 percent as of December 31, 2009. The Association's board of directors elected to retain the 2009 net income of the Association in the form of unallocated equity to address the violation of the minimum core surplus ratio. The Association's board of directors was required to submit a capital restoration plan to FCA. The plan included monitoring, reporting, and possible retention of additional unallocated surplus in future periods to insure the minimum ratio is achieved and maintained. The capital restoration plan is expected to return the Association to full compliance with required regulatory minimum capital standards and there are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

Affiliated Associations primarily serve all or a portion of fifteen states and Puerto Rico. The District's large footprint results in geographic diversity, which is a natural risk-reducing factor for AgFirst. The following table illustrates the geographic distribution of the Associations' loan volume outstanding by state for the past three years at December 31:

District Associations

State	2009	2008	2007
North Carolina	15%	16%	16%
Florida	13	14	14
Georgia	13	12	12
Virginia	11	11	11
Pennsylvania	10	10	10
Maryland	7	7	7
South Carolina	6	6	6
Ohio	6	5	5
Alabama	3	3	4
Kentucky	3	3	3
Mississippi	2	2	2
Delaware	2	2	2
West Virginia	2	2	2
Tennessee	1	2	1
Puerto Rico	1	1	1
Louisiana	1	1	1
Texas	1	1	-
Other	3	2	3
Total	100%	100%	100%

Only five states have loan volume representing 10.00 percent or more of the total. Commodity diversification, guarantees, and borrowers with significant reliance on non-farm income further mitigate the geographic concentration risk in these states.

The diversity of commodity types and income sources supporting Association loan repayment further mitigates credit risk to AgFirst. The Associations' credit portfolios are comprised of a number of segments having varying, and in some cases complementary, agricultural characteristics. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer. The following table illustrates the aggregate credit portfolio of the Associations by major commodity segments at December 31:

District Associations

	Percent of Portfolio		
Commodity Group	2009	2008	2007
Forestry	16%	16%	13%
Poultry	13	13	13
Fruits/Vegetables	10	10	10
Cattle	8	8	8
Other Real Estate	7	7	7
Grain	7	6	6
Dairy	6	5	6
Nursery/Greenhouse	4	5	5
Processing	4	3	3
Rural Home	3	3	3
Tobacco	3	3	3
Swine	3	3	3
Cotton	2	2	3
Corn	2	2	2
Citrus	1	1	2
Other	11	13	13
Total	100%	100%	100%

Diversification is further enhanced by a prevalence of non-farm income among the borrowers, as demonstrated by the following table as of December 31 of each year, which segregates part-time farm loans into a unique segment. Part-time farming is defined as farming not being the primary business or vocation of the applicant with agricultural operations representing less than 50 percent of their total business income.

District Associations

Commodity Group	Percent of Portfolio 2009	2008	2007
Part-time Farmers	39%	40%	40%
Poultry	11	11	11
Forestry	6	5	6
Dairy	6	5	5
Fruits/Vegetables	5	5	5
Grain	5	4	2
Nursery/Greenhouse	4	4	4
Swine	3	3	3
Processing	3	3	3
Rural Home	2	3	2
Cotton	2	2	3
Tobacco	2	2	2
Cattle	2	2	2
Corn	2	2	2
Other Real Estate	2	2	1
Citrus	1	1	1
Other	5	6	8
Total	100%	100%	100%

As illustrated in the above chart, Associations had concentrations of *full-time farmers* of 5.00 percent or greater in only five commodities: poultry, forestry, dairy, fruits/vegetables, and grain. All five commodities have a large geographic dispersion with production over the entire AgFirst footprint. Also, many poultry, dairy, forestry, fruit/vegetables, and grain producers have significant secondary income from off-farm employment by a family member.

Concentrations within the Associations are further limited through the number of farm units producing poultry or dairy products. Poultry production is almost exclusively done through a network of contract growers whose income generally remains stable as variable costs are absorbed by the contracting integrators. Poultry concentration is further dispersed as production is segregated among chicken, turkey, and egg production. Dairy herds range in size from less than one hundred cows to approximately ten thousand.

Associations also manage credit and concentration risk through participations, guarantees, and direct payment assignments from the poultry integrators and milk processing facilities. Most recently, certain commodity prices, including oil and grain, have moderated and should prove beneficial to meat complex producers, including poultry, going forward.

Forestry is divided principally into hardwood and softwood production and value-added processing. The timber from hardwood production is further processed into furniture, flooring, and high-grade paper and is generally located at the more northern latitudes and higher elevations. Softwood timber production is typically located in the coastal plains of the AgFirst footprint and is utilized for building material for the housing market and pulp to make paper and hygiene products. Forestry production operations at the Associations range in size from less than fifty acres to thousands of acres, with value-added processing being conducted at sawmills and planer mills.

The fruits/vegetables portion of the aggregate Association portfolio is made up of a diverse group of many different fruits and vegetables grown throughout the AgFirst District footprint. The volume is spread broadly over the base of Associations.

The following table illustrates the District loan volume outstanding based on the dollar size of borrower relationships at December 31, 2009:

District Loan Volume Gross Loans Outstanding Per Borrower

$ Range (in thousands)	% of Total
$1-$250	34.05 %
$251-$500	16.24
$501-$1,000	13.52
$1,001-$5,000	22.56
$5,001-$25,000	11.69
$25,001-$100,000	1.94
Over $100,000	0.00
Total	100.00 %

Loans greater than $5.0 million per borrower comprise only 13.63 percent of the District loan volume. As mentioned above, loans exceeding an Association's delegated lending authority must be pre-approved by AgFirst. As a result, larger agribusiness loans are typically analyzed by AgFirst's commercial lending staff as well as the Association's own lending staff prior to an Association's committing to such loans.

Loans under $500 thousand comprise 50.29 percent of outstanding loan volume, and loans less than $250 thousand make up approximately 34.05 percent of loan volume. This diversification across a large number of borrowers is another key component of the District's credit risk diversification and solid financial performance over time.

Typically, multiple loans to the same borrower are cross-collateralized and cross-defaulted. By law, all long-term loans must be secured by a first lien on real estate with an initial loan to appraised value not exceeding 85.00 percent. As of December 31, 2009, 42.53 percent of the District loans were identified as secured by a first lien on real estate. Exposure to losses is reduced through collateralization and other credit enhancements, including federal government guarantees.

Participations/Syndications

AgFirst has an active Capital Markets Unit that purchases and sells loan participations and syndications. The Capital Markets Loan Officers and Association Relationship Managers work with the Associations to originate loans within the District's territory, provide commercial loan expertise to augment the Associations' staff, as needed, and provide an outlet for loans that exceed Associations' various hold limits. Additionally, the Capital Markets Unit actively pursues the purchase of participations and syndications originated outside of the District's territory by other System institutions, commercial banks, and other lenders. These loans may be held as earning assets of AgFirst or sub-participated to the Associations. The Capital Markets Unit also sells participations outside of the District to manage AgFirst's and the District Associations' loan concentrations and hold positions.

AgFirst's participation volume outstanding decreased by 3.40 percent from 2008 to 2009 year-end. As with the Direct Notes, borrower demand in this portfolio is anticipated to be moderate through the middle of 2010.

The following table shows total participations/syndications portfolio credit exposures as of December 31:

	AgFirst Participations		
(dollars in thousands)	2009	2008	2007
Participations Purchased	$ 6,183,774	$ 6,954,123	$ 4,891,381
Less: Participations Sold	1,425,308	2,028,379	1,421,081
Net Outstanding	4,758,466	4,925,744	3,470,300
Available Commitments	2,093,193	2,136,119	1,697,129
Letters of Credit and Guarantees	239,620	210,664	177,905
Total Exposure	$ 7,091,279	$ 7,272,527	$ 5,345,334

Like the Associations, AgFirst employs risk management techniques to limit credit exposures, such as the adoption of underwriting standards, individual borrower exposure limits based on risk ratings, and commodity exposure limits.

The following table illustrates AgFirst's participation/syndication portfolio by geographic distribution at December 31:

	AgFirst Participations					
(dollars in thousands)	2009		2008		2007	
Florida	$ 974,827	20%	$ 986,651	20%	$ 753,388	22%
North Carolina	566,539	12	418,186	9	306,317	9
Georgia	421,634	9	566,183	11	467,889	13
Pennsylvania	305,646	6	306,606	6	192,220	6
Virginia	218,663	5	202,491	4	72,779	2
California	194,977	4	214,170	4	210,043	6
Texas	180,344	4	191,293	4	195,608	6
South Carolina	174,489	4	207,270	4	166,803	5
Alabama	150,946	3	176,848	4	42,955	1
Mississippi	143,477	3	171,437	4	38,839	1
Ohio	120,728	2	95,849	2	59,059	2
Kentucky	102,806	2	91,073	2	36,168	1
Oregon	94,356	2	72,958	1	92,516	3
Tennessee	89,435	2	128,656	3	44,752	1
Delaware	89,106	2	85,732	2	82,332	2
Louisiana	86,381	2	82,913	2	6,238	0
Missouri	86,239	2	91,696	2	47,219	1
New York	84,503	2	112,455	2	87,131	3
Washington	82,337	2	70,060	1	41,965	1
Colorado	78,431	1	70,475	1	110,306	3
Minnesota	78,399	1	109,152	2	134,054	4
Connecticut	61,217	1	81,391	2	50,379	1
Arkansas	50,161	1	53,846	1	48,033	1
Iowa	42,168	1	48,223	1	27,512	1
New Jersey	34,158	1	34,838	1	25,673	1
North Dakota	31,638	1	24,445	0	7,076	0
Illinois	30,177	1	15,963	0	3,895	0
Puerto Rico	29,748	1	29,210	1	25,613	1
Other	154,936	3	185,674	4	93,538	3
	$ 4,758,466	100%	$ 4,925,744	100%	$ 3,470,300	100%

The largest major commodity concentrations are in the forestry group, the food and kindred products group, and the agribusiness group which in turn represent a widely diverse group of forestry, forest products, food, food processing, and agribusiness companies. The following shows the various major commodity groups in the portfolio and their percentage of the portfolio's outstanding volume at December 31:

AgFirst Participations	Percent of Portfolio		
Commodity Group	2009	2008	2007
Forestry	15%	16%	17%
Food and Kindred Products	13	13	16
Agribusiness	12	13	13
Citrus	6	6	5
Lumber/Paper	5	6	6
Electric Utilities	6	4	5
Swine	5	5	6
Cattle	5	5	5
Horticulture	5	4	4
Poultry & Eggs	5	4	3
Sugar Cane/Sugar Beets	2	3	3
Telephone Utilities	2	3	3
Other	19	18	14
Total	100%	100%	100%

Weakness continues in the housing related segments of the portfolio which includes: lumber and building product companies, timber producers, landscape and sod nurseries, and borrowers with significant real estate debt. Significant increases in housing starts and a sustained recovery in the general economy are needed to improve the financial capacity of these borrowers.

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 resulting in consolidation in the industry. Much of the District's ethanol exposure that was previously distressed has now been sold to new buyers and the debt refinanced or restructured. This trend is positive. However, some weakness will remain in this segment until these borrowers rebuild the strength of their balance sheets. The Bank had minimal exposure to the ethanol industry at December 31, 2009, with $68.2 million of loans outstanding and $14.4 million of commitments to lend to ethanol related customers. The Bank had additional exposure, through the Direct Note, to the District Associations' ethanol exposure. District Associations' total exposure to the ethanol industry at December 31, 2009 included $172.5 million of loans outstanding and $17.4 million of commitments to extend credit.

At December 31, 2009, the Bank had a loan loss reserve allowance of $4.0 million related to loans in its ethanol portfolio. The Associations also had total reserves of $17.5 million for loans in their ethanol portfolios at December 31, 2009.

Loan portfolio credit quality was adversely affected by deteriorating economic conditions, including lower real estate values, in certain geographic areas within the Bank and District's footprint, particularly in Florida. The Florida economy slowed after an extended period of significant growth for many years led by increasing real estate values and net population inflows. In 2008 and continuing into 2009, real estate values declined, population growth slowed, and housing foreclosures increased. Sales of real estate in Florida, even at greatly reduced values, have been slow in 2009 and foreclosures have been high. Other areas of the District have fared better with less reduction in real estate values but sales continue to be slow throughout.

The recession in the general economy and resulting higher rate of unemployment could further compromise the credit quality of the District's part-time farmers. Many borrowers who have historically had stable income from non-farm sources such as stock portfolios and capital gains income from traded assets have seen reductions in these income sources. Continued weakness in the general economy is one of the factors that could further credit quality deterioration during 2010.

Other major segments of the District loan portfolio continue to perform well, including the sugar, poultry, and row crop segments.

The following table represents the Participation/Syndication credit quality as of December 31:

Participation/Syndication Credit Quality	**2009**	**2008**	**2007**
Acceptable	83.44%	90.17%	97.84%
OAEM	7.18	5.56	1.57
Substandard	9.38	4.27	0.53
Doubtful	0.00	0.00	0.06
Total	100.00%	100.00%	100.00%

Correspondent Lending

The Correspondent Lending Unit (Correspondent Lending) purchases residential loans, including part-time farm loans, from a network of correspondents including the affiliated Associations. Essentially all loans purchased by Correspondent Lending are guaranteed by Fannie Mae or 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.

The table below illustrates the Correspondent Lending gross unpaid principal balance of loans outstanding at December 31:

	AgFirst Correspondent Lending					
(dollars in millions)	**2009**		**2008**		**2007**	
Rural Home Loans – Guaranteed	$ 1,478.8	88.49%	$ 1,127.7	86.14%	$ 852.0	81.97%
Part-time Farm Loans – Guaranteed	131.4	7.87	120.3	9.18	126.1	12.13
Agricultural Loans – Guaranteed	1.9	0.12	2.0	0.15	2.3	0.22
Non-guaranteed Loans	58.9	3.52	59.3	4.53	59.0	5.68
Total	$ 1,671.0	100.00%	$ 1,309.3	100.00%	$ 1,039.4	100.00%

Rural home loans are underwritten to conform to Fannie Mae underwriting standards and are guaranteed by Fannie Mae. Part-time farm loans conform to Farmer Mac underwriting standards and are guaranteed by Farmer Mac. During 2009, AgFirst purchased $687.4 million of rural home and part-time farm loans.

AgFirst owned $1.48 billion in rural home loans at December 31, 2009. These loans are the most significant portion of the Correspondent Lending portfolio due to the Associations' active participation in Fannie Mae home loan programs.

AgFirst owned $131.4 million in part-time farm loans at December 31, 2009. Part-time farm loans represent first lien mortgages on homes with property characteristics (such as acreage or agricultural improvements) that may not conform to Fannie Mae standards. These loans are guaranteed by Farmer Mac.

AgFirst owned $1.9 million of agricultural loans that are guaranteed by Farmer Mac at December 31, 2009. This segment is small, due primarily to the Associations' propensity to hold agricultural loans in-portfolio. Through AgFirst, a number of Associations obtain Farmer Mac guarantees for qualifying segments of their agricultural portfolios, thereby eliminating the need to sell those loans to AgFirst.

The $58.9 million of non-guaranteed loans at December 31, 2009 generally consists of loans that are being held for eventual delivery to, or guarantee by, Fannie Mae or Farmer Mac. Such loans are secured by first-lien mortgages and were considered high quality assets at time of purchase.

The majority of loans owned and/ or serviced by AgFirst are sub-serviced through agreements with third parties. The total volume owned as of December 31, 2009 was $1.7 billion. The total volume serviced but not owned as of December 31, 2009 was $29.8 million.

MISSION RELATED INVESTMENTS

The FCA initiated a program in 2005 to allow System institutions to make and hold investments that stimulate economic growth and development in rural areas. The investments are subject to approval by the FCA on a case-by-case basis. FCA approved the Rural Housing Mortgage-Backed Securities pilot program and the Rural America Bonds pilot program as described below.

Rural Housing Mortgage-Backed Securities

Rural Housing Mortgage-Backed Securities (RHMS) must be fully guaranteed by a government agency or GSE. The rural housing loans backing the RHMS must be conforming first-lien residential mortgage loans originated by non-System lenders in "rural areas" as defined by the Farm Security and Rural Investment Act of 2002, or eligible rural housing loans originated by System lenders under FCA Regulations. Investment securities at December 31, 2009 included $1.24 billion in RHMS classified as held-to-maturity, compared to $1.49 billion at December 31, 2008. In November 2009, the FCA approved a continuation of the RHMS program for another three years.

Rural America Bonds

In October 2005, the FCA approved the Rural America Bonds investment program for a three-year pilot period. In recognition of the economic interdependence between agricultural and rural communities, AgFirst and the Associations seek to safely and soundly invest in debt obligations that support farmers, ranchers, agribusinesses, and their rural communities and businesses. In doing so, AgFirst and the Associations hope to increase the well-being and prosperity of American farmers, ranchers, and rural residents. As of December 31, 2009, the District had $289.6 million in the Rural America Bond program, compared to $236.7 million at December 31, 2008. The Bank had $144.0 million invested in the program as of December 31, 2009, an increase of $14.6 million from December 31, 2008. Of the $144.0 million, the Bank had $118.7 million reflected in investment securities and $25.3 million reflected as loans on the Consolidated Balance Sheet at December 31, 2009. The FCA approved a continuation of the program at October 31, 2008 for an as yet undetermined time period.

FARMER MAC

At December 31, 2009, AgFirst owned $11 million of Farmer Mac senior cumulative perpetual preferred stock, series B-1, which was redeemed in full by Farmer Mac in January 2010. Also at December 31, 2009, AgFirst owned $840 thousand of class B voting restricted common stock, $392 thousand of class C non-voting unrestricted stock, $12.8 million of Farmer Mac MBS investment securities and had $133.4 million of loans guaranteed by Farmer Mac. District Associations had $203.1 million of loans guaranteed by Farmer Mac at December 31, 2009.

RISK MANAGEMENT

The organizational structure of AgFirst facilitates communication of operational and risk management issues throughout all layers of management and across all functional areas. AgFirst's Chief Operating Officer, who also acts as the Chief Risk Officer and reports directly to the President and Chief Executive Officer of the Bank, is responsible for:

- Providing overall leadership, vision, and direction for enterprise risk management;
- Establishing an integrated risk management framework for all aspects of risk across the organization;
- Ensuring development of risk management policies, including the quantification of management's risk appetite through specific risk limits;
- Implementing a set of risk metrics and reports, including key risk exposures and early warning indicators;
- Reviewing and approving recommendations for the allocation of economic capital to business activities based on risk, and optimizing the Bank's risk portfolio through business activities and risk transfer strategies;
- Improving the Bank's risk management readiness through coordination of communication and training programs, risk-based performance measurement and incentives, and other change management programs;
- Assigning responsibility for development of analytical systems and data management capabilities to support the risk management program; and
- Reporting periodically to the Board of Directors on actions taken to strengthen the Bank's system of internal controls.

Overview

The Bank is in the business of making agricultural and other loans that requires accepting certain risks in exchange for compensation for the risks undertaken. Proper management of the risks inherent in AgFirst's business is essential for current and long-term financial performance. The objectives of risk management are to identify and assess risks, and to properly and effectively mitigate, measure, price, monitor, and report risks in the Bank's business activities.

Types of risks to which the Bank has exposure include:

- *structural risk* — risk inherent in the business and related to the System structures comprised of interdependent networks of cooperative lending institutions,
- *credit risk* — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed,
- *interest rate risk* — risk that changes in interest rates may adversely affect the Bank's operating results and financial condition,
- *liquidity risk* — risk of loss arising from the inability to meet obligations when they come due without incurring unacceptable losses,
- *operational risk* — risk of loss resulting from inadequate or failed internal processes or systems, errors by employees or external events, and
- *political risk* — risk of loss of support for the System and agriculture by federal and state governments.

Structural Risk Management

Structural risk results from the fact that AgFirst, along with its related Associations, is part of the System, which is comprised of banks and associations that are cooperatively owned, directly or indirectly, by their borrowers. While System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. The Federal Farm Credit Banks Funding Corporation (Funding Corporation) provides for the issuance, marketing, and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The System banks fund association loans with Systemwide debt. Refer to Note 8, *Bonds and Notes*, in the Notes to the Consolidated Financial Statements for further discussion. The banks are jointly and severally liable for the payments of Systemwide Debt Securities, exposing each bank to the risk of default of the others. Although capital at the association level reduces the banks' credit exposures with respect to their related associations, that capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

In order to mitigate this risk, the System utilizes two integrated contractual agreements executed by and among the banks— the Amended and Restated Contractual Interbank Performance Agreement (CIPA) and the Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score is calculated that measures the financial condition and performance of each district using various ratios that take into account each district's and bank's capital, asset quality, earnings, interest-rate risk, and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each district must achieve and maintain. The CIPA also establishes economic incentives whereby monetary penalties are applied if the performance standard is not met. These penalties will occur at the same point at which a bank would be required to provide additional monitoring information under the MAA.

The MAA establishes criteria and procedures for the banks that provide operational oversight and control over a bank's access to System funding if the creditworthiness of the bank declines below certain agreed-upon levels. The MAA promotes the identification and resolution of individual bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions for each bank's participation in each issuance of Systemwide Debt Securities.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in outstanding loans, letters of credit, unfunded loan commitments, the investment portfolio and derivative counterparty credit exposures. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional loan rating structure, incorporating a 14-point risk-rating scale to identify and track a borrower's probability of default and a separate scale addressing loss given default. The loan rating structure calculates estimates of loss through two components, borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

Through their participation in loans or interests in loans to/from other institutions within the System and outside the System, the Bank and District Associations limit their exposure to both borrower and commodity concentrations. This also allows the Bank and District Associations to manage growth and capital, and to improve geographic diversification. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

AgFirst's loan portfolio is divided into performing and high-risk categories. Although there was credit quality deterioration in 2009, due to the credit risk management process, the Bank's high-risk assets continue to be a small percentage of the total loan volume and total assets. The high-risk assets, including accrued interest, at December 31 are detailed in the following table:

(dollars in thousands)	2009	2008	2007
AgFirst High-risk Assets			
Nonaccrual loans	$ 216,395	$ 176,411	$ 2,507
Restructured loans	–	–	–
Accruing loans 90 days past due	37,913	11,325	1,356
Total high-risk loans	254,308	187,736	3,863
Other property owned	25,909	540	–
Total high-risk assets	$ 280,217	$ 188,276	$ 3,863
Ratios			
Nonaccrual loans to total loans	1.01%	0.83%	0.01%
High-risk assets to total assets	0.91%	0.63%	0.02%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans increased $40.0 million in 2009 primarily due to two borrower relationships in the forestry industry, one in the swine industry and one engaged in other real estate investments, which in total comprise 47.34 percent of the total nonaccrual loan balance at December 31, 2009. The seven largest nonaccrual loan relationships accounted for 68.60 percent of the total. These seven largest nonaccrual relationships were in the swine (24.92 percent of the seven largest total), other real estate (22.32 percent), forestry (21.77 percent), cattle (13.87 percent), and ethanol (9.81 percent) industries. Some of these nonaccrual loans are secured by transitional agricultural real estate, which has been negatively impacted by declining real estate values as discussed above. Nonaccrual loans were 1.01 percent of total loans outstanding at December 31, 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.

Restructuring of loans occurs when concessions are granted to borrowers based on either a court order or assessment of the borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates or a compromise of amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the lender and the borrower.

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 $25.4 million during 2009 and totaled $25.9 million at December 31, 2009. This increase is primarily due to nonaccrual loans that were transferred into OPO from four participation borrower relationships. Ethanol production facilities account for $5.8 million (22.39 percent) of the Bank's total OPO holdings at December 31, 2009. Total gains of $9.3 million from five ethanol production facilities disposed of through financed sales during 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.

Although neither the Bank nor any other System institution receives any direct government support, credit quality is indirectly enhanced by government support in the form of program payments to borrowers, which improve their ability to honor their commitments. However, due to the geographic location of the District and the resulting types of agriculture, government programs account for a relatively small percentage of net farm income in the territory served by the District Associations.

Interest Rate Risk Management

The objective of interest rate risk management is to generate an adequate level of net interest income in any interest rate environment. AgFirst uses a variety of analytical techniques to manage the complexities associated with offering numerous loan options. Interest rate sensitivity gap analysis is used to monitor the repricing characteristics of AgFirst's interest-earning assets and interest-bearing liabilities. Simulation analysis is used to determine the potential change in net interest income and in the market value of equity under various possible future market interest rate environments.

AgFirst and the District Associations adhere to a philosophy that loans should be priced competitively in the market and that loan rates and spreads should be contractually established at loan closing such that a borrower is not subject to rate changes at the discretion of management or boards of directors. Therefore, District Association variable rate and adjustable rate loans are generally indexed to market rates, and fixed rate loans are priced based on market rates at closing. Loan products offered by the Associations include: prime-indexed variable rate loans, LIBOR-indexed variable rate loans, one-, three- and five-year Treasury-indexed adjustable rate loans, and fixed rate loans. Variable rate and adjustable rate loans are offered with or without caps. Terms are available for up to 30 years. A variety of repayment options are offered, with the ability to pay on a monthly, quarterly, semi-annual or annual frequency. In addition, "custom" repayment plans may be negotiated to fit a borrower's unique circumstances.

The following tables represent AgFirst's projected change in net interest income and market value of equity for various rate movements as of December 31, 2009:

Net Interest Income
(dollars in thousands)

Scenarios	Net Interest Income	% Change
+4.0% Shock	$527,031	10.97%
+2.0% Shock	$524,673	10.48%
Base line	$474,919	–%
-50% of 3M Tbill **	$476,131	0.26%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities	Equity*	% Change
Book Value	$30,867,544	$29,687,214	$1,180,330	–%
+4.0% Shock	$28,688,226	$28,064,957	$ 623,268	-46.71%
+2.0% Shock	$29,877,760	$28,922,096	$ 955,664	-18.29%
Base line	$31,008,595	$29,839,083	$1,169,512	–%
-50% of 3M Tbill **	$31,022,769	$29,852,388	$1,170,381	0.07%

* *For interest rate risk management, the $400.0 million in perpetual preferred stock is included in liabilities rather than equity.*

** *When the three-month Treasury bill interest rate is less than 4 percent, both the minus 200 and minus 400 basis point shocks are replaced with a downward shock equal to one-half of the three-month Treasury bill rate.*

The following table sets forth the repricing characteristics of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2009. The amount of assets and liabilities shown in the table, which reprice or mature during a particular period, were determined in accordance with the earlier of term-to-repricing or contractual maturity, anticipated prepayments, and, in the case of liabilities, the exercise of call options.

	Repricing/Maturity Gap Analysis				
(dollars in thousands)	**0 to 6 months**	**6 months to 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**
Floating Rate Loans					
Adjustable/Indexed Loans	$ 5,563,647	$ 120,010	$ 150,248	$ 33,873	$ 5,867,778
Fixed Rate Loans					
Fixed Rate Loans	295,749	138,834	299,021	18,959	752,563
Fixed Rate Prepayable	6,839,169	2,578,708	4,253,983	1,035,118	14,706,978
Total Loans	**12,698,565**	**2,837,552**	**4,703,252**	**1,087,950**	**21,327,319**
Total Investments *	**4,362,857**	**930,351**	**2,127,116**	**1,038,776**	**8,459,100**
Other Earning Assets	**46,578**	**–**	**186,314**	**–**	**232,892**
TOTAL INTEREST EARNING ASSETS	**$17,108,000**	**$ 3,767,903**	**$7,016,682**	**$2,126,726**	**$30,019,311**
Interest-Bearing Liabilities					
Systemwide bonds and notes	$16,611,677	$ 5,031,836	$6,022,000	$1,028,500	$28,694,013
Other interest-bearing liabilities	14,065	–	–	225,000	239,065
Interest rate swaps	1,273,000	(188,000)	(835,000)	(250,000)	–
TOTAL INTEREST-BEARING LIABILITIES	**$17,898,742**	**$ 4,843,836**	**$5,187,000**	**$1,003,500**	**$28,933,078**
Interest Rate Sensitivity Gap	**$ (790,742)**	**$(1,075,933)**	**$1,829,682**	**$1,123,226**	
Sensitivity Gap as % of Total Earning Assets	(2.63)%	(3.58)%	6.10%	3.74%	
Cumulative Gap	$ (790,742)	$(1,866,675)	$ (36,993)	$1,086,233	
Cumulative Gap as a % of Total Earning Assets	(2.63)%	(6.22)%	(0.12)%	3.62%	
Rate Sensitive Assets/Rate Sensitive Liabilities	0.96	0.78	1.35	2.12	

** includes cash equivalents*

At December 31, 2009, the Repricing/Maturity Gap showed the Bank is liability sensitive out to one year as repricing/maturing debt exceeded assets that mature or reprice during that time period. This position is due in part to the low interest rate environment at the end of 2009, which resulted in a significant portion of AgFirst's fixed-rate debt, including debt with call options, subject to repricing during the one year time period. Callable debt may be called prior to scheduled maturity and replaced at lower interest levels. Liability sensitivity implies an increase in net interest income in falling interest rate scenarios and lower net interest income in rising interest rate scenarios.

The Repricing/Maturity Gap Analysis is a "point in time" view and is representative of the interest rate environment at December 31, 2009. This limitation of the Repricing/Maturity Gap Analysis is recognized as the maturity and repricing attributes of balance sheet accounts react differently to changing interest rate environments. During a period of rising interest rates, call options on fixed rate debt are not exercised and the debt terms extend to reflect the longer original maturity dates. Prepayment optionality on fixed rate assets also slows as the economic incentive for borrowers to refinance decreases and extends the asset's term. The results of simulation analysis on the AgFirst balance sheet as shown in the table above for projected change in net interest income indicates that the extension of debt maturity/repricing occurs at a faster pace than the extension of assets. This resulted in the balance sheet having an asset sensitive position in a rising interest rate scenario and subsequently an increase in net interest income. In a falling interest rate scenario, the balance sheet maturity/repricing position is relatively neutral with a small increase in net interest income.

At December 31, 2009, AgFirst had outstanding interest rate swaps with notional amounts totaling $1.4 billion. All of these derivative transactions were executed to create synthetic floating-rate debt to achieve a lower cost of funding. Derivatives may also be used by the Bank for asset/liability management purposes to reduce interest rate risk.

AgFirst policy prohibits the use of derivatives for speculative purposes. See Note 17, *Derivative Instruments and Hedging Activities*, in the Notes to the Consolidated Financial Statements for additional information. The following table shows the activity in derivatives during the year ended December 31, 2009:

Notional amounts *(dollars in millions)*	**Receive Fixed**
Balance at December 31, 2008	$ 2,223
Additions	100
Maturities/amortizations	(750)
Terminations	(200)
Balance at December 31, 2009	$ 1,373

Liquidity Risk Management

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. Along with normal cash flow associated with lending operations, AgFirst has two primary sources of liquidity: investments, including its available-for-sale portfolio; and the capacity to issue Systemwide Debt Securities. The Bank also maintains several lines of credit with commercial banks, as well as three securities repurchase agreement facilities.

Investments and Cash and Cash Equivalents

Investment securities and cash and cash equivalents outstanding as of December 31, 2009 for AgFirst totaled $9.17 billion compared to $8.27 billion and $7.47 billion at December 31, 2008 and 2007, respectively. The increase in 2009 was primarily due to efforts to enhance liquidity and to take advantage of high spread opportunities at certain points during the year. Also, some of the increase in both years was due to management's decision to increase the size of the investment securities portfolio in line with loan growth.

Cash and cash equivalents, which increased $661.9 million from December 31, 2008 to a total of $938.9 million at December 31, 2009, are primarily cash on deposit and 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. Cash balances were increased to improve the liquidity position of the Bank.

Investment securities totaled $8.23 billion, or 26.65 percent of total assets at December 31, 2009, compared to $7.99 billion, or 26.72 percent, as of December 31, 2008. Investment securities increased $233.1 million, 2.92 percent, compared to December 31, 2008 primarily as management maintained the investment securities portfolio size proportionate with that of the loan portfolio in order to maintain adequate liquidity.

AgFirst's investment portfolio and cash and cash equivalents consisted of the following security types as of December 31:

AgFirst Investment Securities and Cash and Cash Equivalents

(dollars in thousands)	2009		2008		2007	
Investment Securities						
Available for Sale						
Agency CMOs	$ 4,197,055	51.01%	$ 3,245,283	40.60%	$ 1,754,553	25.40%
Agency ARMs	2,337,499	28.42	2,533,993	31.70	3,051,267	44.16
Non-Agency CMOs	256,006	3.11	404,321	5.06	636,559	9.21
Asset-Backed Securities	47,465	0.58	79,960	1.00	166,550	2.41
Total Available for Sale	$ 6,838,025	83.12%	$ 6,263,557	78.36%	$ 5,608,929	81.18%
Held to Maturity						
Rural Housing MBS	$ 1,237,233	15.04%	$ 1,494,837	18.70%	$ 1,124,855	16.28%
MBS Guaranteed by Farmer Mac	12,818	0.16	15,355	0.19	16,946	0.25
Mission Related Investments	138,133	1.68	219,408	2.74	158,067	2.29
Total Held to Maturity	1,388,184	16.88	1,729,600	21.64	1,299,868	18.82
Total Investment Securities	$ 8,226,209	100.00%	$ 7,993,157	100.00%	$ 6,908,797	100.00%
Cash and Cash Equivalents						
Cash	$ 705,993	75.20%	$ 7,373	2.66%	$ 14,893	2.67%
Fed Funds	–	–	–	–	183,659	32.87
Master Notes	86,690	9.23	82,000	29.60	85,218	15.25
Repos	146,201	15.57	187,630	67.74	275,000	49.21
Total Cash and Cash Equivalents	$ 938,884	100.00%	$ 277,003	100.00%	$ 558,770	100.00%
Total Investment Securities and Cash and Cash Equivalents	$ 9,165,093		$ 8,270,160		$ 7,467,567	

As of December 31, 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 December 31, 2009, AgFirst's coverage was 151 days. The Bank's cash position provided 6 days of the total 151 days of liquidity coverage. 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 151 days.

FCA regulations also provide that a System bank may hold certain eligible investments in an amount not to exceed 35.00 percent of its total loans outstanding. These investments serve to provide liquidity to the Bank's operations, to manage short-term funds, and to manage interest rate risk. AgFirst maintains an investment portfolio for these purposes comprised primarily of short-duration, high-quality investments. At year-end 2009, the Bank's eligible investments were 33.60 percent of the total loans outstanding.

AgFirst also maintains a portfolio of investments that are not held for liquidity purposes and are accounted for as a held-to-maturity portfolio. These investments are authorized by FCA Regulations that allow investments in Farmer Mac securities and also in specific investments approved by the FCA as Mission Related Investments. The vast majority of this portfolio is comprised of Mission Related Investments for a program to purchase RHMS, not to exceed 10.00 percent of total outstanding loans (see *Mission Related Investments* section above). Investment securities classified as being held-to-maturity totaled $1.39 billion at December 31, 2009.

Investment securities classified as being available-for-sale totaled $6.84 billion at December 31, 2009. Available-for-sale investments at December 31 2009 included $4.20 billion in Agency Collateralized Mortgage Obligations (CMOs), $2.34 billion in Agency Adjustable Rate Mortgages, $256.0 million in non-agency CMOs, and $47.5 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 $234.7 million during the twelve months ended December 31, 2009 to a total of $121.1 million at December 31, 2009. These net unrealized losses are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized losses stem from both normal market factors such as the current interest rate environment and some continued illiquidity in certain mortgage debt security markets. The Bank also recognized credit-related losses of $26.2 million for other-than-temporary impairment during the twelve months ended December 31, 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 $47.5 million, which represented 0.69 percent of the available-for-sale liquidity investment portfolio and 0.58 percent of the total investment security portfolio at December 31, 2009. The amortized cost of these investment securities totaled $67.2 million and the negative market value adjustment for asset-backed securities of $19.7 million was included in the total $121.1 million of net unrealized losses reflected in AOCI at December 31, 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 December 31, 2009, totaled $35.8 million (amortized cost value of $54.2 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 were $5.7 million in payment shortfalls during 2009, continue to perform.

Non-agency CMOs have also experienced significant market pricing volatility. Bank non-agency CMOs totaled $256.0 million, which represented 3.74 percent of the available-for-sale liquidity investment portfolio and 3.11 percent of the total investment security portfolio at December 31, 2009. The amortized cost of these investment securities totaled $336.3 million and the negative market value adjustment for non-agency CMOs of $80.3 million was included in the total $121.1 million of net unrealized losses reflected in AOCI at December 31, 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 December 31, 2009 had a total fair value of $185.0 million and an amortized cost of $242.8 million.

The 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 December 31, 2009 rated below AAA/Aaa (total fair value of $220.8 million and amortized cost of $296.9 million), the Bank has developed and submitted plans for approval by the FCA that provide that the securities may continue to be held. The FCA has approved with conditions the Bank's plans for all except those investments that have most 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 December 31, 2009 are risk weighted 200 percent, 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 $82.2 million and amortized cost of $107.1 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 $138.6 million and amortized cost of $189.9 million at December 31, 2009. For purposes of the net collateral ratio, all ineligible investments are stated at lower of cost or market. See the *Capital* 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 $26.2 million on asset-backed securities and non-agency CMOs in its portfolio during the twelve months ended December 31, 2009, which was 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 mortgage securities markets or other normal market factors. 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 and 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 December 31, 2009. See Note 2, *Significant Accounting Policies*; Note 3, *Investment Securities*; and Note 15, *Fair Value*

Measurement in the Notes to the Financial Statements for further information.

Systemwide Debt Securities

AgFirst's primary source of liquidity comes from its ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the System banks. AgFirst continually raises funds to support its mission to provide credit and related services to the rural and agricultural sectors, to repay maturing Systemwide Debt Securities, and to meet other obligations. As a GSE, AgFirst has access to the nation's and world's debt and capital markets. This access has provided AgFirst with a dependable source of competitively priced debt that is critical to support its mission. Moody's Investors Service and Standard & Poor's rate the System's long-term debt as Aaa and AAA, and short-term debt as P-1 and A-1+, respectively. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's GSE status. Material changes to the factors considered could result in a different debt rating. Despite some continuing adversity in the financial debt markets, as a result of the System's financial performance, credit quality and standing in the capital markets, AgFirst anticipates continued access to funding necessary to support the System's and Bank's needs. The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. AgFirst's year-to-date average balance of Systemwide Debt Securities at December 31, 2009, was $27.96 billion. At December 31, 2009, AgFirst had $28.69 billion in total System debt outstanding compared to $28.05 billion at December 31, 2008 and $24.85 billion at December 31, 2007.

AgFirst's participation in outstanding Systemwide Debt Securities as of December 31, 2009 is shown in the following table:

	Bonds		Discount Notes		Total	
Maturities	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
			(dollars in thousands)			
2010	$ 9,421,011	0.87%	$ 4,517,536	0.41%	$ 13,938,547	0.72%
2011	5,973,495	1.20	–	–	5,973,495	1.20
2012	2,114,199	1.96	–	–	2,114,199	1.96
2013	1,967,189	2.83	–	–	1,967,189	2.83
2014	1,076,936	3.19	–	–	1,076,936	3.19
2015 and after	3,623,647	4.19	–	–	3,623,647	4.19
Total	$ 24,176,477	1.81%	$ 4,517,536	0.41%	$ 28,694,013	1.59%

In the preceding table, weighted average interest rates include the effect of related derivative financial instruments.

Refer to Note 8, *Bonds and Notes*, in the Notes to the Consolidated Financial Statements, for additional information related to debt.

Lines of Credit

AgFirst maintains a $150.0 million unsecured committed line of credit facility from its primary commercial depository bank. The line of credit is tied to AgFirst's master cash management clearing account. This facility allows AgFirst to better manage its exposure to the commercial bank and short term funding activity. AgFirst pays unused commitment fees for this credit facility. The facility has a one-year term with renewal provisions. The current period maturity date is September 30, 2010.

The Bank has securities repurchase agreement facilities with three commercial banks that can range in terms from overnight to six months. Also, AgFirst has overnight Fed Funds lines of credit with three commercial banks. Both the repurchase agreements and Fed Funds lines are maintained on an uncommitted basis.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. AgFirst's and the Associations' boards of directors are required, by regulation, to adopt internal control policies that provide adequate direction to their respective institutions in establishing effective controls over and accountability for operations, programs, and resources. The policies must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess an institution's assets,
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation,
- adoption of asset quality classification standards,
- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In addition, AgFirst has implemented a Risk Management Policy to ensure that business exposures to risk are identified, measured and controlled, using the most effective and efficient methods to eliminate, reduce, or transfer such exposures. AgFirst's risk management structure was designed to ensure that an effective enterprise-wide risk management program is in place. Exposure to operational risk is typically identified with the assistance of senior management. Internal audit plans are developed under the oversight of the AgFirst's Board Audit Committee to ensure an appropriate level of review based on a particular area's or department's level of inherent risk.

Political Risk Management

System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agricultural and rural America. The System and its borrowers may be significantly affected by federal legislation that impacts the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government.

The District addresses political risk by actively supporting the Farm Credit Council, which is a full-service, federal trade association representing the System before Congress, the Executive Branch, and others. The Council provides the mechanism for "grassroots" involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, the District takes an active role in representing the individual interests of System institutions and their borrowers before Congress. In addition to the Farm Credit Council, each district has its own Council, which is a member of the Farm Credit Council. The district Councils represent the interests of their members on a local and state level, as well as on a federal level.

ALLOWANCE FOR LOAN LOSSES

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 and finance lease portfolios. The Bank increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan or lease is uncollectible. Any subsequent recoveries are added to the allowance. The allowance for loan losses was $32.3 million at December 31, 2009, as compared with $44.6 million and $2.8 million at December 31, 2008 and 2007, respectively. The decrease during 2009 was primarily due to charging loans down as their uncollectability became more apparent and measurable during the year. The allowance at December 31, 2009 included specific reserves of $21.7 million related to specific credits and $10.6 million of general reserves attributed to participation loans. Impaired and certain other significant loans were reviewed individually to determine that appropriate reserves were in place at year end. All other participation loans were analyzed collectively and general reserves were established based on that collective analysis including the risk rating and potential for loss given default of the underlying loans.

The following table presents the activity in the allowance for loan losses for the most recent three years at December 31:

AgFirst Allowance for Loan Losses Activity:

(dollars in thousands)	2009	2008	2007
Balance at beginning of year	$ 44,565	$ 2,816	$ 463
Charge-offs:			
Real Estate Mortgage	(25,904)	(322)	–
Agribusiness	(32,203)	–	–
Production and Intermediate-Term	(645)	–	–
Rural Residential Real Estate	(328)	–	
Energy	–	–	(128)
Other (including Mission Related)	–	(1,429)	–
Total charge-offs	(59,080)	(1,751)	(128)
Recoveries:			
Agribusiness	125	–	–
Real Estate Mortgage	34	–	–
Other (including Mission Related)	–	158	–
Total recoveries	159	158	–
Net (charge-offs) recoveries	(58,921)	(1,593)	(128)
Provision for (reversal of allowance for) loan losses	46,648	43,342	2,481
Balance at end of year	$ 32,292	$ 44,565	$ 2,816
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.278)%	(0.008)%	(0.001)%

The allowance for loan losses by loan type for the most recent three years at December 31 is presented in the following table:

AgFirst Allowance for Loan Losses by Loan Type

(dollars in thousands)	2009	2008	2007
Real Estate Mortgage	$ 11,583	$ 12,885	$ 958
Production and Intermediate Term	11,606	8,203	380
Agribusiness	8,286	22,724	44
Energy	274	–	–
Communication	72	–	–
Rural Residential Real Estate	12	7	5
Other (including Mission Related)	459	746	1,429
Total	$ 32,292	$ 44,565	$ 2,816

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators at December 31 is shown below:

	2009	2008	2007
Allowance for loan losses to loans	0.15%	0.21%	0.01%
Allowance for loan losses to nonaccrual loans	14.92%	25.26%	112.33%
Allowance for loan losses to participation loans and Correspondent Lending loans	0.50%	0.71%	0.06%

Despite the recent negative credit quality trends, the financial positions of the Bank and District Associations' borrowers have generally remained strong as farmers' net cash income has been at favorable levels. This has been due, in part, to increases in commodity prices and direct federal government payments. With borrowers' generally strong financial positions and the continued management emphasis on underwriting standards, the credit quality of the District loan portfolio has remained sound despite the recent trends. However, as discussed previously, uncertainty in the general economic environment has increased the potential for additional prospective risks in the loan portfolio.

See Note 4, *Loans and Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements and the *Significant Accounting Policies* section above for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net Income

AgFirst net income totaled $309.1 million for the year ended December 31, 2009, an increase of $91.9 million over 2008. AgFirst net income totaled $217.2 million for the year ended December 31, 2008, an increase of $25.0 million over 2007. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

Changes in Net Income *(dollars in thousands)*	**Year Ended December 31,** 2009	2008
Net income (for prior year)	$ 217,167	$ 192,209
Increase (decrease) due to:		
Total interest income	(301,946)	(135,525)
Total interest expense	425,086	241,168
Net interest income	123,140	105,643
Provision for loan losses	(3,306)	(40,861)
Noninterest income	2,527	(8,949)
Noninterest expense	(30,385)	(30,875)
Total increase (decrease) in net income	91,976	24,958
Net income	$ 309,143	$ 217,167

Interest Income

Total interest income for the year ended December 31, 2009 was $1.03 billion, a decrease of $301.9 million, as compared to the same period of 2008. Total interest income for 2008 was $1.33 billion, a decrease of $135.5 million, as compared to the same period of 2007. The decrease in both years was primarily the result of lower earning asset yields due to the declining market interest rate environment. The volume of interest earning assets increased in 2009, with an increase in average earning assets of $1.4 million. The average yield on interest earning assets decreased 1.24 percent.

The following table illustrates the impact of volume and yield changes on interest income:

Net Change in Interest Income *(dollars in thousands)*	**Year Ended December 31,** 2009-2008	2008-2007
Current year increase in average earning assets	$ 1,431,571	$ 3,180,026
Prior year average yield	4.70%	5.84%
Interest income variance attributed to change in volume	67,326	185,565
Current year average earning assets	29,786,419	28,354,848
Current year increase (decrease) in average yield	(1.21)%	(1.14)%
Interest income variance attributed to change in yield	(369,272)	(321,090)
Net change in interest income	$ (301,946)	$ (135,525)

Interest Expense

Total interest expense for the year ended December 31, 2009 was $541.9 million, a decrease of $425.1 million, as compared to the same period of 2008. Total interest expense for the year ended December 31, 2008 was $967.0 million, a decrease of $241.2 million, as compared to the same period of 2007. The decrease in 2009 was primarily attributed to the decrease in average rates paid on System debt obligations.

The following table illustrates the impact of volume and rate changes on interest expense:

Net Change in Interest Expense *(dollars in thousands)*	**Year Ended December 31,** 2009-2008	2008-2007
Current year increase in average interest-bearing liabilities	$ 2,045,162	$ 3,138,322
Prior year average rate	3.60%	5.09%
Interest expense variance attributed to change in volume	73,552	159,648
Current year average interest-bearing liabilities	28,933,078	26,887,916
Current year increase (decrease) in average rate	(1.69)%	(1.49)%
Interest expense variance attributed to change in rate	(498,638)	(400,816)
Net change in interest expense	$ (425,086)	$ (241,168)

Net Interest Income

Net interest income increased from 2008 to 2009 and from 2007 to 2008, as illustrated by the following table:

AgFirst Analysis of Net Interest Income
Year Ended December 31,
(dollars in thousands)

	2009			2008			2007		
	Avg. Balance	Interest	Avg. Yield	Avg. Balance	Interest	Avg. Yield	Avg. Balance	Interest	Avg. Yield
Loans	$ 21,198,295	$ 830,778	3.92%	$ 20,416,963	$ 1,027,651	5.03%	$ 18,002,377	$ 1,083,668	6.02%
Cash & investments	8,344,616	200,785	2.41%	7,937,885	305,858	3.84%	7,172,445	385,366	5.37%
Total earning assets	$ 29,542,911	$ 1,031,563	3.49%	$ 28,354,848	$ 1,333,509	4.70%	$ 25,174,822	$ 1,469,034	5.84%
Interest-bearing liabilities	$ 28,307,293	$ (541,902)	1.91%	$ 26,887,916	$ (966,988)	3.60%	$ 23,749,594	$ (1,208,156)	5.09%
Spread			1.58%			1.10%			0.75%
Impact of capital	$ 1,235,618		0.08%	$ 1,466,932		0.19%	$ 1,425,228		0.29%
Net Interest Income (NII) & NII to average earning assets		$ 489,661	1.66%		$ 366,521	1.29%		$ 260,878	1.04%

Net interest income for the year ended December 31, 2009 was $489.7 million compared to $366.5 million for the same period of 2008, an increase of $123.1 million or 33.60 percent. The net interest margin was 1.66 percent and 1.29 percent in the current year and previous year, respectively, an improvement of 37 basis points. Spreads improved for several reasons, but primarily as called debt was replaced by new debt issued at a lower rate of interest, decreasing funding costs. Loan pricing compared to the underlying cost of funds also improved during the 2009 period, reflecting increased credit risks and liquidity premiums in the lending markets. Change in net interest income due to the change in balance sheet volume was very minimal as a result of the limited loan growth previously discussed. Prospectively, as assets reprice in the lower interest rate environment, spreads and margins will narrow which can negatively affect net interest income.

Provision for Loan Losses

AgFirst measures risks inherent in its portfolio on an ongoing basis and establishes an appropriate reserve for loan losses. The provision for loan losses for 2009 included additions to specific reserves of $46.2 million related to individual credits, $2.6 million of reversals of general reserves attributed to participation loans and $3.0 million of additions to general and specific reserves on certain loan pools purchased from District Associations. The net provision for loan losses in 2008 of $43.3 million resulted from a $31.0 million addition to specific reserves, $9.6 million of additions to general reserves attributed to participation loans and $2.7 million of additions to general and specific reserves on the Association loan pools.

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	**For the Year Ended December 31,**			**Increase (Decrease)**	
				2009/	**2008/**
(dollars in thousands)	**2009**	**2008**	**2007**	**2008**	**2007**
Loan fees	$ 13,312	$ 8,626	$ 7,684	$ 4,686	$ 942
Gain (loss) from other property owned, net	(2,824)	(19)	5	(2,805)	(24)
Gains (losses) on investments (net)	9,918	–	–	9,918	–
Net impairment losses on investments	(26,168)	(10,465)	–	(15,703)	(10,465)
Gains (losses) on derivatives (net)	469	(359)	–	828	(359)
Gains (losses) on sales of rural home loans (net)	1	(70)	180	71	(250)
Patronage refunds from other Farm Credit Institutions	5,327	3,164	3,161	2,163	3
Other noninterest income	7,366	3,997	2,793	3,369	1,204
Total noninterest income	$ 7,401	$ 4,874	$ 13,823	$ 2,527	$ (8,949)

The increases in loan fees for 2009 and 2008 primarily represented increases in fee income on participation loans.

The increase in gains on investments in 2009 arose from sales to achieve certain portfolio limits and liquidity parameters.

The net impairment losses on investments of $26.2 million were due to the recognition of credit related other-than-temporarily impairment on several of the Bank's investment securities, as described above. During 2008, net impairment losses were due to the determination that an individual asset-backed security was other-than-temporarily impaired, and a related loss of $10.5 million was recognized to adjust to fair value.

Patronage refunds from other Farm Credit institutions increased $2.2 million in 2009. This increase resulted primarily from an increase of dividends received from Farmer Mac senior cumulative perpetual preferred stock purchased at the end of third quarter 2008. Also, there was an increase in patronage received from another System bank to which, during 2008, the Bank sold a total of $200 million of participations in its direct note receivable from a district Association.

Other noninterest income was $7.4 million for the year ended December 31, 2009, or a $3.4 million increase compared to December 31, 2008. The increase in other noninterest income was primarily from outside sources for services to Associations and other Farm Credit System entities and a 2008 captive insurance allocated savings based on claims experience recorded in the first quarter of 2009. Also contributing to the increase was a gain from the Bank's termination of the captive mortgage insurance program. The $1.2 million increase for 2008 resulted primarily from services provided to Associations and other Farm Credit System entities. The Bank began recognizing income from one new significant servicing arrangement in the third quarter of 2008.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended December 31,			Increase/(Decrease)	
(dollars in thousands)	2009	2008	2007	2009/ 2008	2008/ 2007
Salaries and employee benefits	$ 40,960	$ 30,655	$ 28,853	$ 10,305	$ 1,802
Occupancy and equipment	14,720	14,957	13,060	(237)	1,897
Insurance fund premiums	20,605	12,153	5,623	8,452	6,530
Other operating expense	21,873	22,174	18,776	(301)	3,398
Called debt expense	36,531	26,652	10,550	9,879	16,102
Correspondent lending servicing expense	6,303	4,017	2,071	2,286	1,946
Other noninterest expenses	279	278	1,078	1	(800)
Total noninterest expenses	$ 141,271	$ 110,886	$ 80,011	$ 30,385	$ 30,875

Salaries and employee benefits increased over the three year period of 2007 through 2009 as a result of normal salary administration and increased benefit costs. Pension expense for the Bank was $8.5 million in 2009 and $2.2 million in 2008, an increase of $6.3 million. This increase was primarily due to a reduction in the expected total return on plan assets and an increase in the amount of actuarial losses amortized for the Districtwide plan in which the Bank participates. Pension expense is determined by actuarial valuations based on certain assumptions, including expected long-term rates of return on plan assets and discount rates. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of future benefit obligations. Plan assets values decreased significantly in 2008 due to the decline in stock values. The long-term rate of return assumption was lowered from 8.50 percent to 8.00 percent in 2008 and remained at that rate in 2009, for the Districtwide plan in which the Bank participates. These rates are determined based on investment return forecasts and current industry norms. The discount rate used to determine the present value of obligations decreased from 6.25 percent in 2008 to 6.00 percent in 2009. The yield curve used to determine the rate was changed for 2009 to reflect a more conservative level at which obligations could be settled. The pay increase assumption, which impacts service cost, used in the projected benefit obligation determination was increased for certain employee groups to more closely resemble actual experience over the past several years. Some of these changes in assumption may not be permanent, but reflect the Bank's and District's projections based on the current financial environment.

Occupancy and equipment expenses decreased $237 thousand and increased $1.9 million during 2009 and 2008, respectively. The increase in 2008 was the result of higher depreciation expense and other costs of upgrading AgFirst's technical infrastructure.

The $8.5 million and $6.5 million increases in the Insurance Fund premiums in 2009 and 2008, respectively, resulted primarily from a change in the premium assessment methodology and the premium rate. Effective July 1, 2008, the base on which the Insurance Fund premiums are assessed was expanded from total loans to total System debt. In addition, the annual premium rate, which was 15 basis points for the first nine months of 2008, was increased to 18 basis points for the last quarter of 2008. The Insurance Fund Board increased the premium to 20 basis points for 2009.

Other operating expenses decreased $301 thousand in 2009 and increased $3.4 million in 2008. The 2008 increase was primarily due to a $2.1 million increase in professional fees related to technology upgrades and Systemwide initiatives.

Concession or debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized concession is expensed. Called debt expense increased $9.9 million and $16.1 million for the years ended December 31, 2009 and 2008, respectively. Call options were exercised on bonds totaling $25.84 billion in 2009 and $19.90 billion in 2008. 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. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

The increases in correspondent lending servicing expense for 2009 and 2008 are primarily due to guarantee fees from increased volume in the correspondent lending portfolio.

Other noninterest expense primarily consists of amortization of mandatorily redeemable preferred stock issuance costs.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/09	12/31/08	12/31/07
Return on average assets	1.03 %	0.76 %	0.76 %
Return on average shareholders' equity	20.90 %	14.59 %	13.58 %
Net interest income as a percentage of average earning assets	1.66 %	1.29 %	1.04 %
Net (charge-offs) recoveries to average loans	(0.278) %	(0.008) %	(0.001) %

CAPITAL

Capital serves to support future asset growth, investment in new products and services, and to provide protection against credit, interest rate, and other risks, and operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

The AgFirst Capitalization Plan (the "Plan") approved by the Bank's board of directors establishes guidelines to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. The Bank's capital objectives are considered adequate to support inherent risk. There were no material changes to the Plan for 2009 that have an effect on the Bank's ability to retire stock and distribute earnings.

Total shareholders' equity at December 31, 2009 was $1.58 billion, compared to $1.24 billion and $1.46 billion at December 31, 2008 and 2007, respectively. The increase in 2009 was primarily related to the increase in retained earnings from net income of $309.1 million and the decrease in accumulated other comprehensive income (AOCI) of $238.2 million, offset by patronage declared of $183.1 million. The $123.2 million negative AOCI primarily represents the unrealized losses associated with the market value of the Bank's available-for-sale investment securities. The total Shareholders' equity decrease in 2008 was related to a negative increase in AOCI. The $357.2 million negative AOCI in 2008 also primarily represented the unrealized losses associated with a decrease in the market value of the Bank's available-for-sale investment securities.

Capital stock and participation certificates totaled $438.7 million at December 31, 2009, compared to $434.9 million at December 31, 2008, an increase of $3.8 million. The Associations are required to maintain ownership in the Bank in the form of Class B and Class C stock. The Associations' minimum stock requirement is 1.75 percent of Association Direct Note balances. This resulted in a $4.0 million and $11.1 million increase for 2009 and 2008, respectively, in Association owned capital stock.

On May 17, 2001, AgFirst issued $225.0 million of Mandatorily Redeemable Cumulative Preferred Stock at a par value of $1 thousand per share. The Mandatorily Redeemable Preferred Stock is reported as a liability and the related dividends reported as interest expense. Although the Mandatorily Redeemable Preferred Stock is required to be reported as a liability under GAAP, it qualifies as capital for certain regulatory purposes. On October 14, 2003, AgFirst issued $150.0 million of Perpetual Non-Cumulative Preferred Stock at a par value of $1 thousand per share. On June 8, 2007, AgFirst issued $250.0 million of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock, Series 1. See Note 9, *Mandatorily Redeemable Preferred Stock*, and Note 10, *Shareholders' Equity*, in the Notes to the Consolidated Financial Statements for further information concerning the preferred stock issuances.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The FCA notified AgFirst that the June 2007 issuance of $250.0 million of Perpetual Non-Cumulative Subordinated Preferred Stock (as discussed above) could be included in core surplus up to an amount not to exceed 25 percent of total core surplus, inclusive of the preferred stock component. Based on this regulatory guidance, applied to the core surplus ratio at December 31, 2009, all of the $250.0 million in preferred stock has been included. Also in conjunction with the issuance of the mandatorily redeemable preferred stock, FCA now requires AgFirst to maintain a minimum net collateral ratio of 104.00 percent compared to the System regulatory minimum of 103.00 percent. Unlike the permanent capital, total surplus and core surplus ratios, the net collateral ratio does not incorporate any risk-adjusted weighting of assets. The collateral ratio is calculated by dividing the Bank's collateral, as defined by FCA regulations, by total liabilities.

The Bank's regulatory ratios at December 31 are shown in the following table:

	Regulatory	AgFirst Ratio as of		
	Minimum	12/31/09	12/31/08	12/31/07
Permanent Capital Ratio	7.00%	16.86%	17.15%	20.59%
Total Surplus Ratio	7.00%	16.83%	17.11%	20.54%
Core Surplus Ratio	3.50%	9.85%	10.43%	13.04%
Net Collateral Ratio	104.00%	105.66%	105.56%	106.02%

Regulatory ratios for each District Association at December 31 are presented in the *Direct Notes* section above. At December 31, 2009 one of the Associations did not meet the minimum core surplus ratio as discussed in the *Direct Notes* section above. All other Associations met all of the regulatory minimum capital requirements at December 31, 2009.

The Bank's permanent capital, total surplus, and core surplus ratios declined at December 31, 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 effect of AOCI is excluded entirely from the risk-based capital ratios. The decrease in the Bank's permanent capital, total surplus, and core surplus ratios at December 31, 2008 as compared to December 31, 2007 was attributed to the growth in assets on both a total and risk adjusted basis exceeding the increase in capital. The decrease in the collateral ratio for this same time period also was attributed to asset growth.

Refer to Note 10, *Shareholders' Equity*, in the Notes to the Consolidated Financial Statements for additional information regarding regulatory capitalization requirements and restrictions.

ECONOMIC CAPITAL

As discussed previously (see Risk Management section above), risk is an inherent part of the Bank's business activities. The Bank's capital management framework is intended to ensure there is sufficient capital to support the underlying risks of our business activities, exceed all regulatory capital requirements, and achieve certain capital adequacy objectives. The Bank has implemented an economic capital measurement process, including appropriate methodologies and assumptions, to quantify the capital requirements related to our primary areas of risk. The Bank periodically quantifies the economic capital requirements, based on the credit risk, interest rate risk, operational risk, and market risk inherent in its operations. For a further discussion of these risks, see the *Risk Management* section above. Due to the evolving nature of the economic capital concept, the Bank anticipates these methodologies and assumptions will continue to be refined.

THE DISTRICTWIDE YOUNG, BEGINNING, AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

AgFirst is committed to providing sound and dependable credit to young, beginning, and small (YBS) farmers and ranchers. Because of the unique needs of these individuals, and their importance to the future growth of the Associations, the Associations have established annual marketing goals to increase market shares of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers' access to a stable source of credit. AgFirst and the District Associations recognize that YBS farmers are vitally important to the future of agriculture and are committed to continue offering programs to help educate, assist, and provide quality financial services to YBS farmers.

The FCA regulatory definitions for YBS farmers and ranchers are as follows:

Young Farmer – A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

Beginning Farmer – A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.

Small Farmer – A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

It is important to note that due to the regulatory definitions a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

The following table summarizes information regarding the combined District's loans outstanding to Young and Beginning Farmers and Ranchers as of December 31, 2009:

Young, and Beginning Farmers and Ranchers
Number/Volume of Loans Outstanding
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total loans and commitments outstanding at year-end	138,211	–%	$ 30,841,820	–%
2. Young farmers and ranchers	21,645	15.66%	$ 2,224,762	7.21%
3. Beginning farmers and ranchers	32,793	23.73%	$ 4,510,765	14.63%

The following table summarizes information regarding the combined District's loans outstanding to Small Farmers and Ranchers as of December 31, 2009:

Small Farmers and Ranchers
Number/Volume of Loans Outstanding by Loan Size
(dollars in thousands)

Number/Volume Outstanding	$0-$50,000	$50,001-$100,000	$100,001-$250,000	$250,001-and greater
1. Total number of loans and commitments outstanding at year-end	79,824	21,715	21,133	15,539
2. Total number of loans to small farmers and ranchers	53,864	14,108	12,598	6,178
3. Number of loans to small farmers and ranchers as a % of total number of loans	67.48%	64.97%	59.61%	39.76%
4. Total loan volume outstanding at year-end	$ 1,519,007	$ 1,836,577	$ 3,894,622	$ 23,591,614
5. Total loan volume to small farmers and ranchers	$ 1,034,903	$ 1,086,254	$ 2,023,344	$ 3,556,527
6. Loan volume to small farmers and ranchers as a % of total loan volume	68.13%	59.15%	51.95%	15.08%

The following table summarizes information regarding the combined District's new loans made to Young, and Beginning Farmers and Ranchers for the year ended December 31, 2009:

Young, and Beginning Farmers and Ranchers
Gross New Business During 2009, Number/Volume of Loans
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total gross new loans and commitments made during 2009	62,216	–%	$ 15,200,381	–%
2. Total loans and commitments made during 2009 to young farmers and ranchers	9,414	15.13%	$ 1,177,082	7.74%
3. Total loans and commitments made during 2009 to beginning farmers and ranchers	12,793	20.56%	$ 2,126,696	13.99%

The following table summarizes information regarding the combined District's new loans made to Small Farmers and Ranchers for the year ended December 31, 2009:

Small Farmers and Ranchers
Gross New Business by Loan Size, Number/Volume of Loans
(dollars in thousands)

Number/Volume	$0- $50,000	$50,001 - $100,000	$100,001- $250,000	$250,001- and greater
1. Total number of new loans and commitments made during 2009	25,834	12,153	12,758	11,471
2. Total number of loans made to small farmers and ranchers during 2009	18,297	6,650	6,170	3,643
3. Number of loans to small farmers and ranchers as a % of total number of loans	70.83%	54.72%	48.36%	31.76%
4. Total gross loan volume of all new loans and commitments made during 2009	$ 524,608	$ 875,502	$ 2,091,202	$ 11,709,069
5. Total gross loan volume to small farmers and ranchers	$ 355,427	$ 469,369	$ 992,621	$ 1,973,908
6. Loan volume to small farmers and ranchers as a % of total gross new loan volume	67.75%	53.61%	47.47%	16.86%

LEGAL PROCEEDINGS

On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from legal actions pending against AgFirst would be immaterial in relation to the financial position of AgFirst. Refer to Note 14, *Commitments and Contingencies*, in the Notes to the Consolidated Financial Statements for additional information.

REGULATORY MATTERS

During 2009, the FCA took no enforcement actions against the Bank or District Associations and no enforcement actions were in effect for the Bank or District Associations at December 31, 2009. Subsequent to year-end 2009, the FCA entered into written agreements with two District Associations whose assets totaled less than $935.0 million at December 31, 2009. The written agreements require those District Associations to take corrective actions with respect to certain areas of their operations, including capital, portfolio management, and asset quality. These enforcement actions will not have a significant impact on the Bank's or District's financial condition or results of operations.

DISTRICT MERGER ACTIVITY

Please refer to Note 20, *District Merger Activity*, in the Notes to the Consolidated Financial Statements for information regarding merger activity in the District.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

ADDITIONAL DISCLOSURE

Required by Farm Credit Administration Regulations

Core Values

SERVICE

We share a personal responsibility to maintain our customers' loyalty and trust.
We are constantly challenged to improve the value proposition to our customer.

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 to the Consolidated Financial Statements, *Organization and Operations,* included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *Management's Discussion & Analysis of Financial Condition & Results of Operations* included in this Annual Report to shareholders.

Description of Property

The following table sets forth certain information regarding the properties owned by the reporting entity, all of which are located in Columbia, South Carolina:

Location	Description
1401 Hampton Street	Bank building and adjacent parking
1441 Hampton Street	Vacant
1443 Hampton Street	AgFirst Federal Credit Union
1447 Hampton Street	Vacant
1428 Taylor Street	AgFirst training center
1436 Taylor Street	Leased to a tenant

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 14 to the Consolidated Financial Statements, *Commitments and Contingencies,* included in this Annual Report to shareholders.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 10 to the Consolidated Financial Statements, *Shareholders' Equity,* included in this Annual Report to shareholders.

Description of Liabilities

The description of liabilities and contingent liabilities to be disclosed in this section is incorporated herein by reference to Notes 2, 7, 8, 9, 11 and 14 to the Consolidated Financial Statements included in this Annual Report to shareholders.

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

Management's Discussion & Analysis of Financial Condition & Results of Operations, which appears in this Annual Report to shareholders and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the directors and senior officers of the reporting entity.

The chief executive officer and all other senior officers of the Bank, together with their length of service at their present position, as well as positions held during the last five years, are as follows:

Name and Title	Time in Position	Prior Experience	Other Business Interests
F.A. Lowrey, *President and Chief Executive Officer*	12 years	CEO, Palmetto Farm Credit, ACA from April 1989 to January 1998.	He serves as: member of the Board for Federal Farm Credit Banks Funding Corporation; Council Member of the National Council of Farm Cooperatives; University of South Carolina: member of the Board of Trustees for the Business Partnership Foundation and Chairman of the Board of Directors for the Education Foundation; member of the Board of Directors for Big Brothers Big Sisters of Greater Columbia; member of the Board of Directors and Chairman of Finance Committee for National 4H Council; member of the Board of Directors for Palmetto AgriBusiness Council; member of the Board of Directors for Midlands Business Leadership Group.
Thomas S. Welsh, *Executive Vice President and Chief Administrative and Legislative Officer*	12 years	Chief Marketing and Planning Officer from January 1996 until March 1998.	He serves on the Advisory Board of the Farm Credit System Captive Insurance Company. Member of the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee.
Leon T. Amerson, *Executive Vice President and Chief Operating Officer*	3 years	Chief Financial Officer from March 1998 to September 2006.	He serves on the AgFirst/FCBT Plan Fiduciary Committee.
Charl L. Butler, *Senior Vice President and Chief Financial Officer*	3 years	Chief Financial Officer and Secretary at The National Bank of South Carolina from 1991 until 2007.	
William L. Melton, *Senior Vice President and Chief Lending Officer*	6 years	Senior Executive Officer/Bank Lending from January to July 2003, prior to that Lending Services Manager.	He serves as an at-large director of the National Chicken Council.
Benjamin F. Blakewood, *Senior Vice President and Chief Information Officer*	11 years	Director of Information Technology from 1996 to 1998 at Affinity Technology Group.	
Frederick T. Mickler, III, *Senior Vice President and General Counsel*	12 years	Assistant General Counsel July 1989 until April 1998.	

The total amount of compensation earned by the CEO and the senior officers as a group during the years ended December 31, 2009, 2008 and 2007, is as follows:

Name of Individual or Number in Group	Year	Annual Salary	Annual Bonus	Deferred Comp.	Perq./ Other*	Total
F. A. Lowrey	2009	$ 600,279	$ 338,619	$ 14,654	$ 21,448	$ 975,000
F. A. Lowrey	2008	$ 577,192	$ 263,584	$ 12,265	$ 21,357	$ 874,398
F. A. Lowrey	2007	$ 524,720	$ 176,642	$ 44,160	$ 21,731	$ 767,253
6 Officers	2009	$ 1,554,648	$ 556,293	$ 84,973	$ 109,211	$ 2,305,125
6 Officers	2008	$ 1,456,242	$ 440,498	$ 80,196	$ 98,651	$ 2,075,587
5 Officers	2007	$ 1,284,000	$ 439,220	$ 81,030	$ 112,060	$ 1,916,310

* *Primarily comprised of company contributions to thrift plan (see Note 11 to the Consolidated Financial Statements – Employee Benefit Plans), group life insurance premiums and bank-provided automobile. Amount for other senior officers in 2007 also includes sign-on bonus.*

In addition to a base salary, senior officers may earn additional compensation under the Bank's Corporate Bonus Plan. The plan payments are based upon the Bank's achievement of financial targets and employee's achievement of performance targets. Those covered by the plan include all employees. Bonuses are shown in the year earned. Payment of the 2009 bonus was made in the first quarter of 2010.

Senior officers may also participate in the Bank's Long Term Bonus Plan which is designed to attract, recognize, and maintain senior officers and other key employees. Participation in the plan is at the sole discretion of the CEO. Bonuses are shown in year accrued. Payments will be made when earned.

Bank compensation plans are reviewed by the Board Compensation Committee.

Additionally, senior officers as well as all employees are reimbursed for all direct travel expenses incurred when traveling on Bank business. A copy of the travel policy is available to shareholders upon written request.

Disclosure of information on the total compensation paid during 2009 to any senior officer, or to any other individual included in the aggregate, is available to shareholders upon request.

AgFirst Farm Credit Bank Board of Directors for 2009

Name	Position	Term of Office
Paul M. House	Chairman	December 31, 2011
M. Wayne Lambertson	Vice Chairman	December 31, 2013*
Gary L. Alexander	Director	December 31, 2011
Jack W. Bentley Jr.	Director	December 31, 2013**
William C. Bess, Jr.	Director	December 31, 2009
Don W. Freeman	Director	December 31, 2009
Bonnie V. Hancock	Director	December 31, 2013***
Dale R. Hershey	Director	December 31, 2011
Robert L. Holden, Sr.	Director	December 31, 2010
Thomas W. Kelly	Director	December 31, 2012
Lyle Ray King	Director	December 31, 2012
S. Alan Marsh	Director	December 31, 2013**
James L. May	Director	December 31, 2013*
Bobby E. McCollum, Jr.	Director	December 31, 2013**
Eugene W. Merritt, Jr.	Director	December 31, 2010
James M. Norsworthy, III	Director	December 31, 2011
Katherine A. Pace	Director	December 31, 2011
J. Dan Raines, Jr.	Director	December 31, 2009
Walter L. Schmidlen, Jr.	Director	December 31, 2012
Robert G. Sexton	Director	December 31, 2011
Kenneth A. Spearman	Director	December 31, 2009****
Robert H. Spiers, Jr.	Director	December 31, 2013*
William H. Voss	Director	December 31, 2010
J. Mark Wheeler	Director	December 31, 2012

* *These directors were re-elected in 2009 to a new 4-year term commencing 1/1/10.*

** *These directors were newly elected in 2009 to a 4-year term commencing 1/1/10.*

*** *This director was appointed as one of the board's outside directors for a 4-year term commencing 1/1/10.*

**** *Resigned from the Bank Board effective October 9, 2009, following appointment to the FCA board.*

Paul M. House, Chairman of the Board, is from Nokesville, Virginia, where he grows corn, soybeans, wheat, hay and turf grass on 4,000 acres. He also operates a dairy and milks 340 cows. He serves as a director of the Farm Credit of the Virginias, ACA.

M. Wayne Lambertson, Vice Chairman of the Board, from Pocomoke City, Maryland, owns and operates with his son a 2,700-acre farm of corn, soybeans, and wheat, and a 300,000 capacity broiler operation. He is co-owner of a restaurant, Green Turtle, and partner in a development and construction company, J.W.L. Enterprise, LLC. He currently serves on the boards of the national Farm Credit Council (the Farm Credit System's national trade organization), MidAtlantic Farm Credit, ACA, and the Delmarva Poultry Industry (DPI), a trade organization. Mr. Lambertson serves on the Board Compensation Committee.

Gary L. Alexander from Westminster, South Carolina is owner and operator of Alexander Farms, Inc., a poultry production and property development business. He markets 3.2 million broilers a year through his 18-broiler house farm and develops residential properties. He currently serves on the board of directors of AgSouth Farm Credit, ACA, and is a director of The Outdoor Dream Foundation, an organization providing outdoor adventures for children with life threatening illnesses and also a member of the S. C. Poultry Federation. Mr. Alexander serves on the Board Audit Committee.

Jack W. Bentley, Jr., a dairy farmer in Tignall, Georgia, owns and operates A&J Dairy, a 270-cow dairy that includes 583 acres of pasture, crops and timberland, and an additional 500 acres of leased farmland. Mr. Bentley is a director of AgGeorgia Farm Credit, ACA, Southeast United Dairy Industry Association, and the Wilkes County Farm Bureau. He is also a member of the Wilkes County Board of Tax Assessors and is past board chair for Farm Service Agency. Mr. Bentley serves on the Board Governance Committee.

William C. Bess, Jr., from Lincolnton, North Carolina, is owner of Bess Farms Inc., a grain and hay production operation and has a 70-head cow-calf operation. He served on the boards of the national Farm Credit Council Board and Farm Credit Council Services. He is also a member of Carolina Farm Credit, ACA as well as the Cleveland County and Catawba Cattlemen's Associations. Mr. Bess served on the Board Governance Committee.

Don W. Freeman of Montgomery, Alabama, manages a 400-acre cow-calf operation and an 80 unit river rental business near Lowndesboro, Alabama. He served on the national Farm Credit Council Board and is a member of Lowndes County Farmers Federation Board and the Lowndes County Cattlemen's Association Board. He is also past president of the Alabama Chapter of the American Society of Farm Managers and Rural Appraisers. He is a member of First South Farm Credit, ACA. Mr. Freeman served on the Board Compensation Committee.

Bonnie V. Hancock is Executive Director of the Enterprise Risk Management Initiative at North Carolina State University (NCSU). She also lectures and teaches courses in financial management, enterprise risk management, strategy and financial statement analysis. Prior to joining NCSU, she worked with Progress Energy, as senior vice president of finance and information technology and later as president of Progress Fuels, a subsidiary that produces and markets gas, coal and synthetic fuels, and operates fuel terminals and ash management facilities. Ms. Hancock is a graduate of Georgetown University with a master's degree in taxation. She is also a graduate of the College of William and Mary with a bachelor's degree in business administration with an accounting major. She lives in Wake Forest, North Carolina, and is a member of the boards of the Marble Kids Museum and the North Carolina Coastal Pines Girl Scout Council, where she serves as a finance committee member for each respective board. Ms. Hancock serves on the Board Credit Committee.

Dale R. Hershey from Manheim, Pennsylvania is a partner in Hershey Brothers Dairy Farms, a dairy operation which milks 285 cows, raises 250 dairy replacements, and grows 650 acres of corn, alfalfa, soybeans, barley, rye and hay. He serves on the board of directors of MidAtlantic Farm Credit, ACA, and is a delegate on the Leadership Council for Land O'Lakes. He also is a member of Pennsylvania Farm Bureau, Pennsylvania Dairy Stakeholders, the Pennsylvania Holstein Association, Lancaster County Blue Ribbon Commission for Agriculture and the Penn Township Ag Advisory Committee. Mr. Hershey serves on the Board Credit Committee.

Robert L. Holden, Sr., is co-owner and operator of a dairy, a 900-acre row-crop farm, and a 200,000 broiler operation in Whigham, Georgia. He is a director of the Southwest Georgia Farm Credit, ACA, Georgia Milk Producers, Grady County Farm Bureau, American Dairy Association of Georgia, and First United Ethanol, LLC. Mr. Holden serves on the Board Governance Committee.

Thomas W. Kelly from Tyrone, Pennsylvania, is owner and manager of a livestock and crop farm, raising dairy heifers and growing corn and soybeans. Along with his son, he handles land management for Spring Lane Hunt Club. He currently is an elected delegate to the Penn State Agricultural Council and a director of Mid-Atlantic Master Farmer Association and is a former director of Holstein Association, USA. He is a member of AgChoice Farm Credit, ACA. Mr. Kelly serves as Chairman on the Board Governance Committee.

Lyle Ray King of Ash, North Carolina, owns and operates a farm where he grows timber, corn, soybeans and wheat. He currently serves on the boards of Cape Fear Farm Credit, ACA, Atlantic Telephone Membership Cooperative, and Landbank Resource Management, a real estate company. Mr. King serves on the Board Credit Committee.

S. Alan Marsh, a third-generation farmer, is owner and operator of Marsh Farms in Madison, Alabama. His operation consists of 3,000 acres of row crops, including cotton, soybeans, wheat and corn. Mr. Marsh is a director of First South Farm Credit, ACA and Limestone County Farmers Federation, and is president and stockholder of South Limestone Co-op Gin. He is also a delegate on the national Cotton Council, a member of the Alabama Cattlemen's Association and an advisory board member for Staplecotn, a cotton cooperative association. Mr. Marsh serves on the Board Governance Committee.

James L. May is owner and operator of Mayhaven Farm in Waynesburg, Kentucky, where he owns 330 acres and leases another 700 acres. He is involved in the development and marketing of 500 heifers for replacement cows and embryo transfer. Mr. May's operation also includes 150 acres of alfalfa hay, 500 acres of corn and soybeans, and 100 acres of wheat. He currently serves as a member of the Central Kentucky Ag Credit board, Lincoln County Extension Council, Lincoln County Ag Development Board, and is a member of the Lincoln County Farm Bureau Board. Mr. May serves as chairman of the Board Credit Committee.

Bobby E. McCollum, Jr., is a poultry operator in Polkton, North Carolina. His operation includes eight broiler houses that produce 750,000 heavy broilers per year. Mr. McCollum also has a 100-head brood cow/calf commercial herd, and grows 100 acres of timber as well as hay, soybeans, wheat and corn. He is a director of Anson County Farm Bureau, and a member of Anson County Cattlemen's Association and the North Carolina Farm Bureau, serving on their Poultry Advisory Committee. He is a member of Carolina Farm Credit, ACA. Mr. McCollum serves on the Board Audit Committee.

Eugene W. Merritt, Jr., from Easley, South Carolina, is co-owner of an ornamental tree farm and is a landscape contractor. He also operates a 400-acre timber and grass farm. He serves on the boards of AgSouth Farm Credit, ACA; People Bancorp, a commercial bank holding company; Peoples National Bank, a commercial bank; and Jackson Companies, a recreational company. Mr. Merritt served as chairman and is currently a member of the Board Compensation Committee and is a member of the AgFirst/FCBT Plan Fiduciary Committee.

James M. Norsworthy, III, from Jackson, Louisiana runs 100 Cedars Cattle Farm, a 175-head cow-calf operation. He also has a commercial hay operation with 125 acres in Alicia Bermuda hay and 150 acres in Bahia Grass hay and manages a 375-acre pine and hardwood timber operation. He is a member of the board of directors of First South Farm Credit, ACA, serves on the board of Feliciana Farm Bureau and is a past president of that organization. He is a member of East Feliciana Cattlemen's Association, American Angus Association and the Feliciana Forestry Association. Mr. Norsworthy served as a former mayor of the town of Jackson, Louisiana. Mr. Norsworthy serves on the Board Audit Committee.

Katherine A. Pace from Orlando, Florida, is a certified public accountant. Prior to forming her company, Family Business Consulting, LLC, she was a tax partner with KPMG, LLP, an audit, tax and advisory service firm, from 1985-2005. While at KPMG, her practice included a variety of cooperative and agribusiness clients as well as participation in trade associations such as the National Society of Accountants for Cooperatives. Ms. Pace obtained her B.S. degree in accounting from Furman University. She is a member of the American Institute of Certified Public Accountants, the Florida Institute of Certified Public Accountants and current and past member and director of numerous trade and charitable organizations. In addition to the AgFirst Bank, she serves as a director on an advisory board for a private for profit organization involved in agriculture. Ms. Pace serves as Chairman of and is the board designated financial expert on the Board Audit Committee.

J. Dan Raines, Jr., is a beef producer from Ashburn, Georgia. His operations include commercial beef cattle, registered Angus cattle and timber. He serves as a director on the boards of AgGeorgia Farm Credit, ACA and the Federal Agricultural Mortgage Corporation (Farmer Mac). Mr. Raines served on the Board Credit Committee.

Walter L. Schmidlen, Jr., from Elkins, West Virginia, is a past dairy farmer and now continues his cow-calf operation along with growing hay and corn on a 700 acre farm with lease/rented land. He is owner/operator of a farm equipment business. He presently serves on the board of Farm Credit of the Virginias, ACA, and was a former director of Southern States Cooperative and Sire Power. Mr. Schmidlen serves on the Board Governance Committee.

Robert G. Sexton is from Vero Beach, Florida. He is President of Oslo Citrus Growers Association and co-owner of Lost Legend, LLC, and owner of Orchid Island Juice Company. He serves as a director of Farm Credit of South Florida, ACA; Oslo Citrus Growers Association; Lost Legend, LLC; Florida Citrus Packers; Indian River Citrus League; Highland Exchange Service Co-op, a packinghouse supply cooperative; McArthur Management Company, a management company for a large dairy, cattle and citrus agribusiness; Sexton Grove Holdings, a family citrus company; Sexton Properties, Oslo Packing Company, Patio Restaurant and Sexton, Inc., family commercial real estate companies; and Dancing Pigs, LLC, which owns Red, Hot and Blue BBQ restaurants. In addition, he is a member of the Indian River Farm Bureau. He obtained both his B.S. degree in business administration and his MBA finance from the University of Florida. Mr. Sexton served on the Board Audit Committee, and currently serves on the Board Compensation Committee. He is a board designated financial expert. Mr. Sexton is also a member of the AgFirst/ FCBT Plan Sponsor Committee.

Kenneth A. Spearman from Winter Haven, Florida, is a retired Director of Internal Audit for Florida's Natural Growers, Inc. who served 28 years with the citrus industry. He is a former Controller of Citrus Central, Inc. in Orlando, Florida, co-founder of a public accounting firm in Chicago, Illinois and was employed with Arthur Andersen & Co. He obtained his Masters Degree in Business Administration from Governors State University in University Park, Illinois, and his B. S. degree in accounting from Indiana University. He served as chairman of the board of trustees for the Lake Wales Medical Center. He is a member of the Institute of Internal Auditors, and the National Society of Accountants for Cooperatives, where he was a past National President. Mr. Spearman served on the Board Governance Committee. Mr. Spearman resigned from the Bank Board effective October 9, 2009, following appointment to the FCA board.

Robert H. Spiers, Jr., is a full-time farmer, with a tobacco, corn, wheat, and soybean operation on 1,100 acres in Dinwiddie County, Virginia. He currently serves on the boards of Colonial Farm Credit, ACA, Tobacco Associates, Inc. and Dinwiddie County Farm Bureau. He is also director and treasurer of the Old Hickory Hunt Club and a director on the Virginia Flue-cured Tobacco Board. He has been active on a number of Virginia Farm Bureau advisory committees. Mr. Spiers served on the Board Compensation Committee and currently serves as Chairman of that Committee. He is chairman of the AgFirst/FCBT Plan Sponsor Committee.

William H. Voss is from McComb, Mississippi. He has commercial cattle and timber operations in Southwest Mississippi and is involved in land and commercial property management. His career includes production agriculture, agribusiness and real estate. He currently serves on the board of directors of First South Farm Credit, ACA. He is a former agricultural commodities and securities broker and has served as Chairman of the Mississippi Real Estate Commission and Chairman of the Pike County Farm Service Committee. Mr. Voss serves on the Board Compensation Committee and is a member of the AgFirst/FCBT Plan Sponsor Committee.

J. Mark Wheeler from Bradenton, Florida is chief financial officer of Wheeler Farms, Inc., which grows citrus in several counties in Florida. He serves on the boards of Farm Credit of Southwest Florida, ACA, Florida Citrus Mutual, an industry trade association, and Wheeler Brothers, Inc., a family-held citrus contract harvesting corporation. Mr. Wheeler is president of Hardee Livestock Market, Inc., a beef cattle operation, and Boston Mining Company, a citrus, real estate and cash investment organization. Mr. Wheeler serves on the Board Audit Committee and is a member of the AgFirst/FCBT Plan Sponsor Committee.

Committees

The board has established an audit committee, compensation committee, credit committee and governance committee. All members of the board, other than the chairman, serve on a committee. The chairman of the board serves as an ex officio member of all board committees, and the vice chairman serves as a member of the board compensation committee. The Board has two designated financial experts one of which serves on the audit committee. The responsibilities for each committee are set forth in its respective board approved charter.

Compensation of Directors

Directors were compensated in 2009 in cash at the rate of $50,205 per year, payable at $4,183 per month. This is compensation for attendance at board meetings, board committee meetings, certain other meetings pre-approved by the board, and other duties as assigned. FCA regulations also allow additional compensation to be paid to a director in exceptional circumstances where extraordinary time and effort are involved. Total cash compensation paid to all directors as a group during 2009 was $993,965. Directors received no non-cash compensation during 2009. Additional information for each director who served during 2009 is provided below.

	Number of Days Served			
Name of Director	Board Meetings	Other Official Activities*	Farm Credit Council Bd. Activities	Total Comp. Paid During 2009
Gary L. Alexander	25.50	10.50	7.75	$ 50,205
William C. Bess, Jr.	24.50	10.00	5.50	50,205
Don W. Freeman	25.50	9.00	7.75	50,205
Dale R. Hershey	25.50	12.75	7.75	50,205
Robert L. Holden, Sr.	22.50	13.00	7.75	50,205
Paul M. House	24.00	13.75	7.75	50,205
Thomas W. Kelly	25.50	13.25	7.75	50,205
Lyle Ray King	24.50	12.50	5.50	50,205
M. Wayne Lambertson	25.50	13.00	7.75	50,205
James L. May	25.50	13.50	7.75	50,205
Eugene W. Merritt, Jr.	25.50	8.75**	7.75	50,205
James M. Norsworthy	25.50	13.75	7.75	50,205
Katherine A. Pace	25.50	10.75	7.75	50,205
J. Dan Raines, Jr.	23.00	9.50	7.25	50,205
Walter L. Schmidlen, Jr.	25.50	13.25	7.75	50,205
Robert G. Sexton	25.50	13.75***	7.75	51,405****
Kenneth A. Spearman	17.00	13.00	7.25	38,870
Robert H. Spiers, Jr.	25.50	12.00	7.75	50,205
William H. Voss	25.50	9.00	7.75	50,205
J. Mark Wheeler	25.50	13.50	7.75	50,205
Total				$993,965

* *Other official activities include board committee meetings and board training.*
** *Does not include 10.50 days served on AgFirst/FCBT Plan Fiduciary Committee.*
*** *Does not include 6.00 days served on AgFirst and AgFirst/FCBT Plan Sponsor Committees.*
**** *Includes compensation for attending a Federal Farm Credit Banks Funding Corporation Board meeting.*

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $236,458 for 2009, $259,345 for 2008, and $251,988 for 2007.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section, are incorporated herein by reference to Note 12 to the Consolidated Financial Statements, *Related Party Transactions,* included in this Annual Report to shareholders. There have been no transactions between the Bank and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditor

There were no changes in or material disagreements with our independent auditor on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees expensed by the Bank for services rendered by its independent auditor for the year ended December 31, 2009 were as follows:

	2009
Independent Auditor	
PricewaterhouseCoopers LLP	
Audit services	$ 458,788
Non-audit services	81,382
Total	$ 540,170

Audit fees were for the annual audits of financial statements.

Non-audit fees were for agreed upon procedures for Financial Institution Shared Assessments Program readiness, agreed upon procedures for Board of Directors elections, and accounting guidance.

All non-audit service engagements of $50,000 or more for the Bank require pre-approval by the Audit Committee.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP, dated March 12, 2010, and the Report of Management, which appear in this Annual Report to shareholders are incorporated herein by reference.

Borrower Information Regulations

Farm Credit Administration (FCA) regulations require that borrower information be held in strict confidence by Farm Credit institutions, their directors, officers, and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires Farm Credit institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the annual report to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Shareholder Investment

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. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of each Quarterly Report within 40 days after the end of each fiscal quarter, except that no report is prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors (the Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of AgFirst Farm Credit Bank (the Bank) and in the opinion of the Board of Directors; each is free of any relationship with the Bank or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Bank's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Bank's independent auditor for 2009, is responsible for expressing an opinion on the conformity of the Bank's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance).* PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 *(Independence Discussions with Audit Committees)*, and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services to the Bank is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report for 2009. The foregoing report is provided by the following independent directors, who constitute the Committee:

Katherine A. Pace
Chairman of the Audit Committee

Members of Audit Committee

Gary L. Alexander
Bobby E. McCollum, Jr.
James M. Norsworthy, III
J. Mark Wheeler

REPORT OF INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
10 Tenth Street, Suite 1400
Atlanta, GA 30309
Telephone (678) 419 1000

Report of Independent Auditors

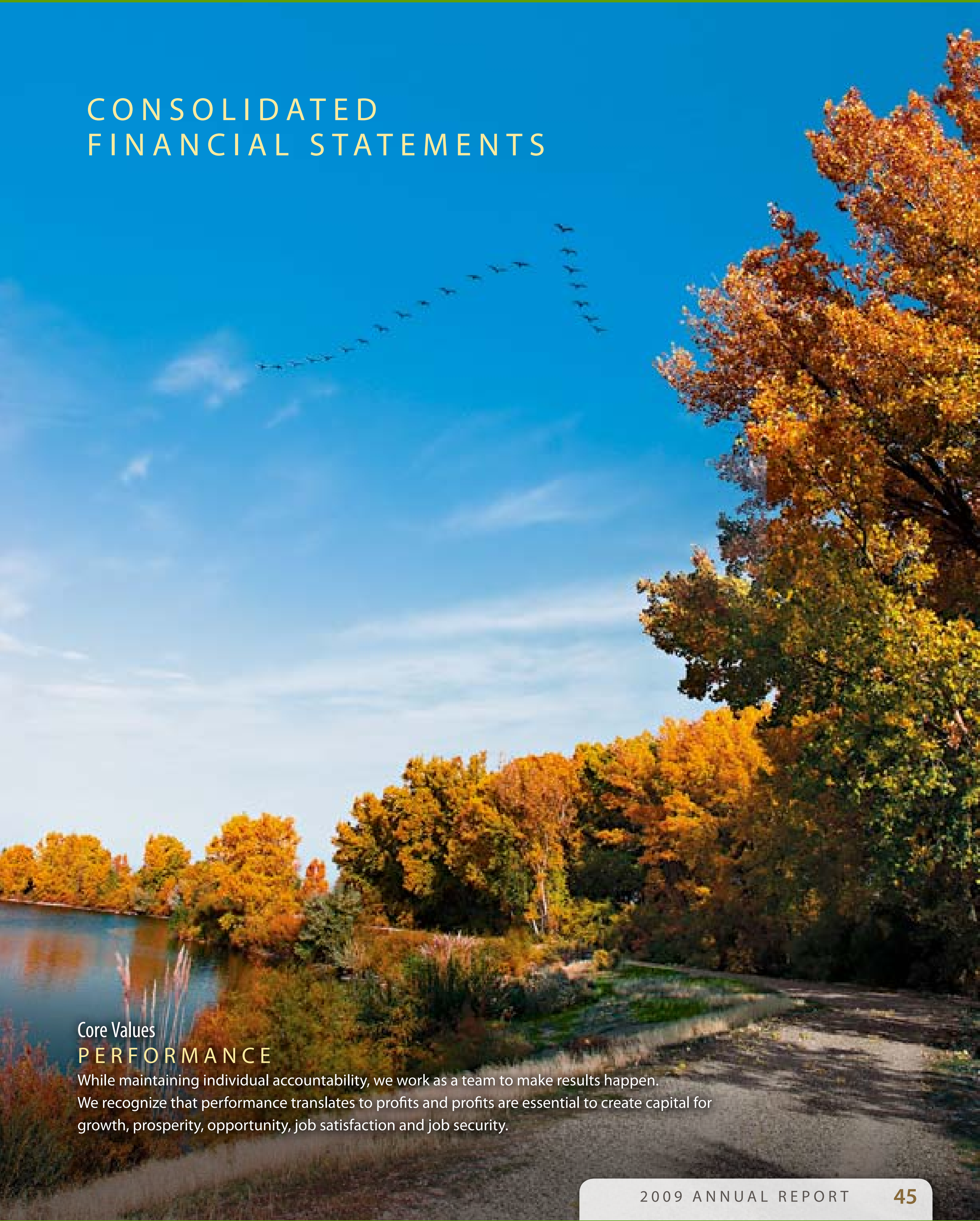
To the Board of Directors and Shareholders
of AgFirst Farm Credit Bank

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of AgFirst Farm Credit Bank (the Bank) and its subsidiary at December 31, 2009, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 12, 2010

CONSOLIDATED FINANCIAL STATEMENTS



Core Values
PERFORMANCE

While maintaining individual accountability, we work as a team to make results happen. We recognize that performance translates to profits and profits are essential to create capital for growth, prosperity, opportunity, job satisfaction and job security.

Consolidated

BALANCE SHEETS

(dollars in thousands)	As of December 31, 2009	2008	2007
Assets			
Cash and cash equivalents	$ 938,884	$ 277,003	$ 558,770
Investment securities:			
Available for sale (amortized cost of $6,959,113 $6,619,348 and $5,646,683 respectively)	6,838,025	6,263,557	5,608,929
Held to maturity (fair value of $1,426,740 $1,763,185 and $1,277,999 respectively)	1,388,184	1,729,600	1,299,868
Total investment securities	8,226,209	7,993,157	6,908,797
Loans	21,327,319	21,239,330	19,114,517
Less: allowance for loan losses	32,292	44,565	2,816
Net loans	21,295,027	21,194,765	19,111,701
Accrued interest receivable	94,756	106,593	114,508
Investments in other Farm Credit System institutions	76,635	75,055	64,221
Premises and equipment, net	14,489	18,061	20,750
Other property owned	25,909	540	—
Due from associations	37,345	40,671	42,701
Other assets	158,290	205,206	105,173
Total assets	$ 30,867,544	$ 29,911,051	$ 26,926,621
Liabilities			
Bonds and notes	$ 28,694,013	$ 28,053,023	$ 24,847,248
Mandatorily redeemable preferred stock	225,000	225,000	225,000
Accrued interest and dividends payable	83,038	154,143	179,578
Patronage distribution payable	182,724	157,017	153,103
Other liabilities	102,439	80,776	64,211
Total liabilities	29,287,214	28,669,959	25,469,140
Commitments and contingencies (Note 14)			
Shareholders' Equity			
Perpetual preferred stock	400,000	400,000	400,000
Capital stock and participation certificates	438,707	434,929	364,759
Retained earnings			
Allocated	965	805	705
Unallocated	863,862	762,550	730,724
Accumulated other comprehensive income (loss)	(123,204)	(357,192)	(38,707)
Total shareholders' equity	1,580,330	1,241,092	1,457,481
Total liabilities and shareholders' equity	$ 30,867,544	$ 29,911,051	$ 26,926,621

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

Consolidated Statements of

INCOME

(dollars in thousands)	For the year ended December 31, 2009	2008	2007
Interest Income			
Investment securities and other	$ 200,785	$ 305,858	$ 385,366
Loans	830,778	1,027,651	1,083,668
Total interest income	1,031,563	1,333,509	1,469,034
Interest Expense	541,902	966,988	1,208,156
Net interest income	489,661	366,521	260,878
Provision for (reversal of allowance) for loan losses	46,648	43,342	2,481
Net interest income after provision for (reversal of allowance) for loan losses	443,013	323,179	258,397
Noninterest Income			
Loan fees	13,312	8,626	7,684
Gains (losses) from other property owned, net	(2,824)	(19)	5
Gains (losses) on investments, net (Note 3)	9,918	—	—
Impairment losses on investments (Note 3)	(60,412)	(10,465)	—
Noncredit-related losses on investments not expected to be sold (recognized in other comprehensive income) (Note 3)	34,244	—	—
Net impairment losses on investments	(26,168)	(10,465)	—
Gains (losses) on derivatives, net	469	(359)	—
Gains (losses) on sales of rural home loans, net	1	(70)	180
Patronage refunds from other Farm Credit institutions	5,327	3,164	3,161
Other noninterest income	7,366	3,997	2,793
Total noninterest income	7,401	4,874	13,823
Noninterest Expense			
Salaries and employee benefits	40,960	30,655	28,853
Occupancy and equipment	14,720	14,957	13,060
Insurance fund premiums	20,605	12,153	5,623
Other operating expense	21,873	22,174	18,776
Called debt expense	36,531	26,652	10,550
Correspondent lending servicing expense	6,303	4,017	2,071
Other noninterest expense	279	278	1,078
Total noninterest expense	141,271	110,886	80,011
Net income	$ 309,143	$ 217,167	$ 192,209

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

Consolidated Statements of Changes in

SHAREHOLDERS' EQUITY

(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, 2006	$ 150,000	$ 313,353	$ —	$ 715,753	$ 1,981	$ 1,181,087
Comprehensive income						
Net income				192,209		192,209
Unrealized gains (losses) on investments available for sale					(39,735)	(39,735)
Total comprehensive income						152,474
Perpetual preferred stock issued	250,000					250,000
Issuance cost on preferred stock				(2,743)		(2,743)
Capital stock/participation certificates issued/(retired), net		51,011				51,011
Stock dividends declared/(paid)		395		(395)		—
Patronage distribution						
Cash distributions declared				(153,894)		(153,894)
Nonqualified allocated retained earnings			705	(705)		—
Perpetual preferred stock dividends paid				(19,501)		(19,501)
Adjustment to initially apply accounting guidance for						—
employee benefit plans (Note 11)					(953)	(953)
Balance at December 31, 2007	400,000	364,759	705	730,724	(38,707)	1,457,481
Comprehensive income						
Net income				217,167		217,167
Unrealized gains (losses) on investments available for sale					(318,037)	(318,037)
Employee benefit plan adjustments (Note 11)				(138)	(448)	(586)
Total comprehensive loss						(101,456)
Capital stock/participation certificates issued/(retired), net		69,586				69,586
Stock dividends declared/(paid)		584		(584)		—
Patronage distribution						
Cash distributions declared				(157,278)		(157,278)
Nonqualified allocated retained earnings			188	(188)		—
Perpetual preferred stock dividends paid				(27,413)		(27,413)
Patronage distribution adjustment			(88)	260		172
Balance at December 31, 2008	400,000	434,929	805	762,550	(357,192)	1,241,092
Cumulative-effect adjustment for investment impairment accounting change (Note 3)				3,474	(3,474)	—
Comprehensive income						
Net income				309,143		309,143
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 3)					(31,606)	
Temporarily impaired (Note 3)					269,783	
Total unrealized gains (losses) on investments available for sale						238,177
Employee benefit plan adjustments (Note 11)					(715)	(715)
Total comprehensive income						546,605
Capital stock/participation certificates issued/(retired), net		3,205				3,205
Stock dividends declared/(paid)		573		(573)		—
Patronage distribution						
Cash distributions declared				(183,116)		(183,116)
Nonqualified allocated retained earnings			160	(160)		—
Perpetual preferred stock dividends paid				(27,413)		(27,413)
Patronage distribution adjustment				(43)		(43)
Balance at December 31, 2009	$ 400,000	$ 438,707	$ 965	$ 863,862	$ (123,204)	$ 1,580,330

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

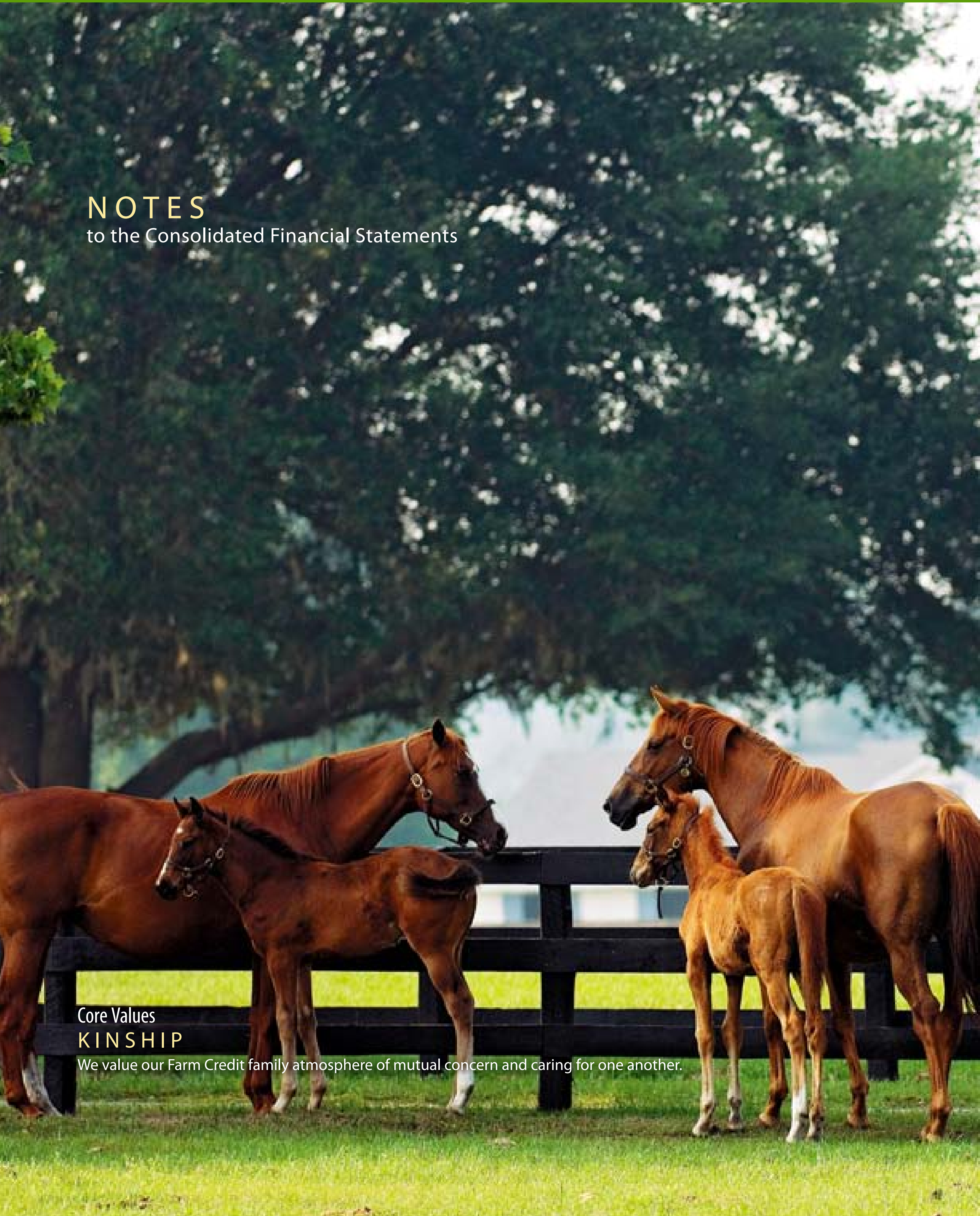
Consolidated Statements of

CASH FLOWS

(dollars in thousands)	For the year ended December 31, 2009	2008	2007
Cash flows from operating activities:			
Net income	$ 309,143	$ 217,167	$ 192,209
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	8,619	9,192	8,452
(Premium amortization) discount accretion on investment securities	17,266	5,789	(3,502)
Premium amortization (discount accretion) on bonds and notes	(4,631)	6,820	7,343
Provision for (reversal of allowance for) loan losses	46,648	43,342	2,481
Net impairment losses on investments	26,168	10,465	—
(Gains) losses on investments, net	(9,918)	—	—
(Gains) losses on derivatives, net	(469)	359	—
(Gains) losses on sales of rural home loans, net	(1)	70	(180)
Net change in loans held for sale	43,068	25,992	25,712
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	11,837	7,915	(9,583)
(Increase) decrease in due from associations	3,326	2,030	(1,009)
(Increase) decrease in other assets	(8,025)	(8,778)	6,003
Increase (decrease) in accrued interest and dividends payable	(71,105)	(25,435)	(8,450)
Increase (decrease) in other liabilities	(1,649)	18,324	7,889
Total adjustments	61,134	96,085	35,156
Net cash provided by operating activities	370,277	313,252	227,365
Cash flows from investing activities:			
Investment securities purchased	(2,597,275)	(3,076,950)	(2,155,803)
Investment securities sold or matured	2,500,225	1,658,299	1,569,455
Net (increase) decrease in loans	(123,993)	(2,152,468)	(1,987,840)
(Increase) decrease in investments in other Farm Credit System institutions	(1,580)	(10,834)	845
Purchase of premises and equipment, net	(5,047)	(6,503)	(3,504)
Net cash used in investing activities	(227,670)	(3,588,456)	(2,576,847)
Cash flows from financing activities:			
Bonds and notes issued	108,805,294	111,550,964	66,559,204
Bonds and notes retired	(108,104,360)	(108,446,508)	(64,383,204)
Perpetual preferred stock issued net of issuance cost	—	—	247,257
Capital stock and participation certificates issued/(retired), net	3,205	69,586	51,011
Cash distributions to shareholders	(157,452)	(153,192)	(129,279)
Dividends paid on perpetual preferred stock	(27,413)	(27,413)	(19,501)
Net cash provided by financing activities	519,274	2,993,437	2,325,488
Net increase (decrease) in cash and cash equivalents	661,881	(281,767)	(23,994)
Cash and cash equivalents, beginning of period	277,003	558,770	582,764
Cash and cash equivalents, end of period	$ 938,884	$ 277,003	$ 558,770
Supplemental schedule of non-cash investing and financing activities:			
Financed sales of other property owned	$ 27,602	$ —	$ —
Loans transferred to other property owned	52,971	540	—
Investments transferred to loans (Note 2)	91,353	—	—
Change in unrealized gains (losses) on investments and derivative instruments, net	238,177	(318,037)	(39,735)
Increase in liability resulting from adoption of accounting guidance for employee benefit plans (Note 11)	—	—	953
Employee benefit plan adjustments (Note 11)	715	586	—
Cumulative-effect adjustment for investment impairment accounting change (Note 3)	3,474	—	—
Non-cash changes related to hedging activities:			
Increase (decrease) in bonds and notes	$ (55,313)	$ 94,499	$ 50,526
Decrease (increase) in other assets	54,941	(91,795)	(29,572)
Increase (decrease) in other liabilities	(240)	(2,091)	(20,954)
Supplemental information:			
Interest paid	$ 617,638	$ 985,603	$ 1,209,263

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

NOTES
to the Consolidated Financial Statements



Core Values
KINSHIP
We value our Farm Credit family atmosphere of mutual concern and caring for one another.

Note 1 — Organization and Operations

A. **Organization:** AgFirst Farm Credit Bank (the Bank or AgFirst) is one of the banks of the Farm Credit System (the System), a nationwide system of cooperatively owned banks and associations and related service organizations. The System was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act).

   The nation is currently served by four Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities. AgFirst is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of the states of Ohio, Tennessee, Kentucky and Louisiana.

   Each FCB and the ACB serves one or more Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that originate both long-term and short- and intermediate-term loans. PCAs, FLCAs, and ACAs are collectively referred to as associations. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The District Associations jointly own all of AgFirst's voting stock. As of December 31, 2009, the District consisted of the Bank and twenty-two District ACAs. All twenty-two ACAs are structured as holding companies, which include FLCA and PCA subsidiaries.

   Each FCB and the ACB are responsible for supervising the activities of the Associations within their districts. The FCBs and/or Associations make loans to or for the benefit of eligible borrowers/shareholders for qualified agricultural and rural purposes. District Associations borrow the majority of their funds from their related bank. The FCBs and the ACB obtain a substantial majority of funds for their lending operations through the sale of consolidated Systemwide bonds and notes to the public, but also obtain a portion of their funds from internally generated earnings, from the issuance of common and preferred stock and, to a lesser extent, from the issuance of subordinated debt.

   The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The activities of the banks and associations are examined by the FCA and certain actions by these entities are subject to the FCA's prior approval.

   The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used: (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Associations, into the Insurance Fund, based on its annual average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

   The basis for assessing premiums was changed, beginning with the second half of 2008, to reflect each bank's pro rata share of outstanding Insured Debt. Prior to that, premiums had been based primarily on loans outstanding. Premiums of up to 20 basis points on adjusted Insured Debt obligations can be assessed along with a risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments. Premiums for the third and fourth quarters of 2008 were 15 and 18 basis points, respectively. For 2009, the premium was 20 basis points. Effective January 1, 2010, the premium was decreased to 10 basis points.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity and financial services which can be offered by the Bank and the persons eligible to borrow.

   The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' loan portfolios and operations. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a general financing agreement between the Bank and each Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

   The Associations borrow from the Bank and in turn may originate and service both long-term real estate mortgage and short- and intermediate-term loans to their members.

   In addition to providing loan funds to District Associations, the Bank provides the District Associations with banking and support services such as: accounting, human resources, information systems, and marketing. The costs of these support services are included in the interest charges to the Associations, or in some cases billed directly to certain Associations that use a specific service.

   The Bank is also authorized to provide, in participation with other lenders and the secondary market, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses. The Bank may also lend to other financial institutions qualified to engage in lending to eligible borrowers.

The Bank owns the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation). The Finance Corporation borrowed funds from the Bank and eligible funds from qualified companies doing business in Puerto Rico under Section 2(j) of the Puerto Rico Tax Incentive Act of 1987, as amended, or the Puerto Rico Tax Incentive Act of 1998, including corporations that had elections under Section 936 and 30(A) of the Internal Revenue Code of 1986, as amended (Code). The funds borrowed were primarily used to acquire from AgFirst the note receivable from Puerto Rico Farm Credit, ACA, and to acquire eligible loans originated by other System institutions. Savings in interest costs were, in part, passed along to borrowers in Puerto Rico who met certain eligibility requirements. The operations of the Finance Corporation were suspended and placed into inactive status effective December 31, 2005. All assets and liabilities of the Finance Corporation were transferred to its sole shareholder, AgFirst, on December 31, 2005.

The Bank, in conjunction with other System banks, jointly owns service organizations, which were created to provide a variety of services for the System:

- *Federal Farm Credit Banks Funding Corporation (Funding Corporation)* – provides for the issuance, marketing and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.

- *FCS Building Association* – leases premises and equipment to the FCA.

- *Farm Credit System Association Captive Insurance Company* – being a reciprocal insurer, provides insurance services to its member organizations.

These investments are accounted for using the cost method. In addition, the *Farm Credit Council* acts as a full-service federated trade association, which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires the management of the Bank to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results can differ from these estimates.

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation. Also, during the second quarter of 2009, the Bank reclassified from investments to loans certain financial instruments which totaled $91.4 million. 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 accompanying Consolidated Financial Statements include the accounts of the Bank (including the Finance Corporation), and reflect the investments in and allocated earnings of the service organizations in which the Bank has partial ownership interests. All significant transactions and balances between the Bank and the Finance Corporation have been eliminated.

A. **Cash and Cash Equivalents:** Cash and Cash Equivalents include cash on hand and short-term investments with original maturities of three months or less.

B. **Investment Securities**: The Bank, as permitted under the FCA regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds, managing interest rate risk and, in the case of certain Mission-Related Investments, to stimulate economic growth and development in rural areas. Investments are classified based on management's intention on the date of purchase and recorded on the Consolidated Balance Sheets as securities on the trade date. Investment securities which management has the intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included in other comprehensive income (OCI) in Shareholders' Equity.

Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

The Bank reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the carrying value of the security is written down to fair value, the credit-related impairment loss is recognized through earnings in the period of impairment and the non-credit related portion of impairment loss is recognized in other comprehensive income. Credit related 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.

C. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have original maturities up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount is deferred as part of the carrying amount of the loan and the net difference is amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or charged against the allowance for loan losses (if accrued in prior years).

When loans are in nonaccrual status, if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments received in cash is generally recognized as interest income. Otherwise, loan payments are applied against the recorded investment in the loan asset. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified "doubtful" or "loss."

Loans are charged-off at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Bank makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is maintained 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 the following factors, among others, when determining the allowance for loan losses:

- Credit risk classifications,
- Collateral values,
- Risk concentrations,
- Weather related conditions,
- Current production and economic conditions, and
- Prior loan loss experience.

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. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

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 incurred in the remainder of the loan portfolio at the financial statement date, which excludes loans included 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.

D. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements that extend the useful life of the asset are capitalized.

E. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through collection actions, is recorded upon acquisition at fair value less estimated selling costs. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments related to other property owned are included in net gains (losses) from other property owned in the Statement of Income.

F. **Debt Issuance Cost:** Direct expenses incurred in issuing debt and mandatorily redeemable preferred stock are deferred and amortized using the straight-line method (which approximates the interest method) over the term of the related indebtedness or term of the mandatorily redeemable preferred stock.

G. **Employee Benefit Plans:** The Bank participates in District sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan.

Substantially all employees of the Bank may participate in either the AgFirst Farm Credit Retirement Plan or the AgFirst Farm Credit Cash Balance Retirement Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer plans under FASB accounting guidance. These two Plans are noncontributory and include eligible Bank and other District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. For participants hired prior to January 1, 2003, benefits are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are determined using a percent of eligible compensation formula. The actuarially-determined costs of these Plans are allocated to each participating entity, including the Bank, by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plans' participants. The cumulative excess of amounts funded by the Bank over the cost allocated to the Bank is reflected as prepaid retirement expense, a component of other assets in the Bank's Consolidated Balance Sheets.

In addition to providing pension benefits, the Bank provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a District plan. Substantially all of the Bank's employees are eligible for those benefits when they reach early retirement age while working for the Bank. Early retirement age is defined as a minimum of age 50 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided life insurance benefits under the plan. Certain Bank charges related to this plan are an allocation of District charges based on the Bank's proportional share of the plan liability. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits. The cumulative excess of cost allocated to the Bank over the amounts funded by the Bank is reflected as postretirement benefits other than pensions, a component of other liabilities in the Bank's Consolidated Balance Sheets.

Since the foregoing defined benefit plans are multi-employer plans, the Bank does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations.

Substantially all Bank employees are eligible to participate in the defined contribution AgFirst/FCBT (Farm Credit Bank of Texas) 401(k) Employee Benefit Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Bank contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 3.00 percent of eligible compensation. For employees hired on or after January 1, 2003, the Bank contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of eligible compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded.

Additional financial information for the above three plans may be found in Note 11 and in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2009 Annual Report.

In addition to the multi-employer plans above, the Bank sponsors a single employer defined benefit supplemental retirement plan, two defined contribution supplemental retirement plans, and offers a deferred compensation plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Bank's Consolidated Balance Sheets in Other Liabilities. See Note 11 for additional financial information for these plans, including the impact of FASB guidance on the defined benefit supplemental retirement plan.

H. **Income Taxes:** The Bank is exempt from federal and other income taxes as provided in the Farm Credit Act.

I. **Derivative Instruments and Hedging Activity:** The Bank is party to derivative financial instruments, primarily interest rate swaps and caps, which are principally used to reduce funding costs. Derivatives are included in the Consolidated Balance Sheets as assets and liabilities and reflected at fair value.

Changes in the fair value of a derivative are recorded in current period earnings or accumulated other comprehensive income (loss) (AOCI) depending on the risk being hedged. For fair-value hedge transactions which hedge changes in the fair value of assets, liabilities, or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value and changes reported in earnings. For cash-flow hedge transactions, which hedge the variability of future cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative will generally be deferred and reported in AOCI. The gains and losses on the derivative that are deferred and reported in AOCI will be reclassified into earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recorded in current period earnings. For derivatives not designated as a hedging instrument, if any, the related change in fair value is recorded in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) firm commitments or forecasted transactions. The Bank also formally assesses at the hedge's inception whether the derivatives that are used in hedging transactions will be highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The Bank uses regression analysis (or other statistical analysis) to assess the effectiveness of its hedges on an ongoing basis. The Bank discontinues hedge accounting prospectively when the Bank determines that a hedge has not been or is not expected to be effective as a hedge. For cash flow hedges, any remaining AOCI would be amortized into earnings over the remaining life of the original hedged item. For fair value hedges, changes in the fair value of the derivative will be recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

The Bank may occasionally purchase a financial instrument in which a derivative instrument is "embedded." Upon purchasing the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and may be designated as either a fair value or cash flow hedge. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings, or if the Bank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument.

See *Recent Accounting Developments* section below for additional information regarding expanded disclosure requirements for derivative instruments.

J. **Valuation Methodologies:** Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as the majority of the Bank's investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, certain derivatives, certain investment securities and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on the Bank's results of operations.

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 disclosures about fair value measurements. 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 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It describes three levels of inputs that may be used to measure fair value as discussed in Note 15.

K. **Recent Accounting Developments:** Effective January 1, 2009, the Bank adopted FASB guidance which amended and expanded disclosures about derivative instruments and 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 appropriate guidance
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 instrument disclosures have been expanded (see Note 17).

Effective January 1, 2009, the Bank adopted accounting guidance for fair value measurement of nonfinancial assets and liabilities. The impact of adoption resulted in additional fair value disclosures (see Note 15), primarily regarding other property owned, but did 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 emphasized that even if there has been a significant decrease in the volume and level of market 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 3 and Note 15).

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 it 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, as well as annually (see Note 3).

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 AOCI. The Bank recognized an adjustment to beginning retained earnings in the amount of $3.5 million, and a corresponding adjustment to AOCI 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," which requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. The Bank adopted this guidance effective March 31, 2009 (see Note 16).

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 reflected in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not reflected 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 21).

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. However, it results in disclosure modifications to eliminate pre-codification references.

In June 2009, the FASB issued guidance "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This guidance must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting guidance) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance that requires consolidation. The Bank is currently evaluating the impact of adoption on its loan participation agreements to ensure that participations would meet the requirements for sales treatment. The impact of adoption is expected to be immaterial to the Bank's financial condition and results of operations.

In June 2009, the FASB also issued guidance, to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity.

Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance.

This guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Bank is currently evaluating the impact of adoption on its financial condition and results of operations but expects transactions that are included in the scope of this guidance, if any, to be immaterial to the Bank's financial condition and results of operations.

In January 2010, the FASB issued guidance "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more detail disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance will have no impact on the Bank's financial condition and results of operations but will result in additional disclosures.

Note 3 — Investment Securities

Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments at December 31, 2009, 2008, and 2007, follows:

(dollars in thousands)	December 31, 2009 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA MBS/CMOs	$ 3,835,830	$ 34,286	$ (12,958)	$ 3,857,158	2.04%
U.S. Govt. Agency MBS	2,595,257	22,374	(44,256)	2,573,375	1.58
Non-Agency CMOs	460,866	–	(100,839)	360,027	0.56
Asset-Backed Securities	67,160	–	(19,695)	47,465	0.48
Total	$ 6,959,113	$ 56,660	$ (177,748)	$ 6,838,025	1.75%

(dollars in thousands)	December 31, 2008 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	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%

(dollars in thousands)	December 31, 2007 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA MBS/CMOs	$ 1,754,693	$ 3,393	$ (3,533)	$ 1,754,553	4.99%
U.S. Govt. Agency MBS	3,055,524	10,595	(14,853)	3,051,266	5.03
Non-Agency CMOs	651,767	718	(15,926)	636,559	5.26
Asset-Backed Securities	184,699	–	(18,148)	166,551	5.07
Total	$ 5,646,683	$ 14,706	$ (52,460)	$ 5,608,929	5.04%

Held-to-maturity

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments at December 31, 2009, 2008, and 2007, follows:

(dollars in thousands)	December 31, 2009 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	$ 1,250,051	$ 47,751	$ (289)	$ 1,297,513	5.19%
Mission Related Investments	138,133	1,403	(10,309)	129,227	5.99
Total	$ 1,388,184	$ 49,154	$ (10,598)	$ 1,426,740	5.27%

(dollars in thousands)	December 31, 2008 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	$ 1,510,192	$ 45,341	$ (341)	$ 1,555,192	5.17%
Mission Related Investments	219,408	6,760	(18,175)	207,993	6.13
Total	$ 1,729,600	$ 52,101	$ (18,516)	$ 1,763,185	5.29%

(dollars in thousands)	December 31, 2007 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	$ 1,141,801	$ 224	$ (20,469)	$ 1,121,556	5.08%
Mission Related Investments	158,067	1,749	(3,373)	156,443	6.39
Total	$ 1,299,868	$ 1,973	$ (23,842)	$ 1,277,999	5.24%

A summary of the expected maturity, estimated fair value, and amortized cost of investment securities at December 31, 2009 follows:

Available-for-sale

(dollars in thousands)	Due in 1 year or less Amount	Weighted Average Yield	Due after 1 year through 5 years Amount	Weighted Average Yield	Due after 5 years through 10 years Amount	Weighted Average Yield	Due after 10 years Amount	Weighted Average Yield	Total Amount	Weighted Average Yield
U.S. Govt. GNMA MBS/CMOs	$ –	– %	$ –	– %	$ 1,624	0.65 %	$ 3,855,534	2.04%	$ 3,857,158	2.04%
U.S. Govt. Agency MBS	–	–	670	0.88	138,105	1.68	2,434,600	1.57	2,573,375	1.58
Non-Agency CMOs	–	–	–	–	–	–	360,027	0.56	360,027	0.56
Asset-Backed Securities	–	–	–	–	–	–	47,465	0.48	47,465	0.48
Total fair value	$ –	– %	$ 670	0.88 %	$ 139,729	1.67 %	$ 6,697,626	1.76%	$ 6,838,025	1.75%
Total amortized cost	$ –		$ 672		$ 138,879		$ 6,819,562		$ 6,959,113	

Held-to-maturity

(dollars in thousands)	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	
	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	$ –	– %	$ –	– %	$ 2,900	5.00 %	$ 1,247,151	5.19 %	$ 1,250,051	5.19 %
Mission Related Investments	4,888	6.20	9,807	3.34	40,370	6.51	83,068	6.03	138,133	5.99
Total amortized cost	$ 4,888	6.20 %	$ 9,807	3.34 %	$ 43,270	6.41 %	$ 1,330,219	5.25 %	$ 1,388,184	5.27 %
Total fair value	$ 5,058		$ 10,213		$ 41,247		$ 1,370,222		$ 1,426,740	

Included in the available-for-sale investments are collateralized mortgage obligations (CMOs). Substantially all CMO securities have contractual maturities in excess of ten years. However, expected maturities for CMO securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

Proceeds from sales and realized gains and losses on sales of investment securities are as follows:

(dollars in thousands)	Year Ended December 31, 2009	2008	2007
Proceeds from sales	$ 167,262	$ –	$ –
Realized gains	9,918	–	–
Realized losses	–	–	–

AgFirst's investments include primarily mortgage-backed securities (MBSs) and asset backed securities (ABSs). These securities are held for maintaining a liquidity reserve, managing short-term surplus funds, and managing interest rate risk. These securities must meet the applicable Farm Credit Administration (FCA) regulatory guidelines, which require these securities to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through over collateralization or other means and the priority of payments of senior classes over junior classes. All ABSs have credit enhancement features including senior/subordinate structure and/or are backed by a bond insurer.

The FCA considers a MBS or ABS ineligible if it falls below the AAA/Aaa credit rating criteria and requires System institutions to divest of such an investment unless the FCA grants specific approval to continue to hold an ineligible security.

MBSs are collateralized by U.S. government or U.S. agency guaranteed residential mortgages and all were rated AAA/Aaa at December 31, 2009. Non-agency CMO securities not rated in the top category by at least one of the NRSROs at December 31, 2009 had a fair value of $185.0 million. ABSs not rated in the top category by at least one of the NRSROs at December 31, 2009 had a fair value of $35.8 million. For each of these investment securities in the Bank's portfolio rated below AAA/Aaa, 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.

The fair value of all investments at December 31, 2009 split rated AAA/Aaa or lower by the NRSROs totaled $392.3 million (amortized cost of $511.0 million). This represents approximately 4.75 percent (and 6.12 percent) of total fair value (and amortized cost) of the Bank's total investment portfolio at December 31, 2009. Split rated AAA/Aaa is defined as a security maintaining different ratings by the NRSROs with at least one NRSRO rating the security AAA/Aaa.

Rural America Bonds consist of private placement securities purchased under the Mission Related Program approved by the FCA.

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 December 31, 2009:

(dollars in thousands)	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	Greater than 12 Months Fair Value	Greater than 12 Months Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Govt. GNMA MBS/CMOs	$ 186,492	$ 1,242	$ 1,269,486	$ 11,716	$ 1,455,978	$ 12,958
U.S. Govt. Agency MBS	213,231	2,014	1,369,665	42,531	1,582,896	44,545
Non-Agency CMOs	12,042	2,395	347,984	98,444	360,026	100,839
Asset-Backed Securities	–	–	47,465	19,695	47,465	19,695
Mission Related Investments	27,762	4,145	71,709	6,164	99,471	10,309
Total	$ 439,527	$ 9,796	$ 3,106,309	$ 178,550	$ 3,545,836	$ 188,346

On December 31, 2009, the Bank held certain investments having continuous unrealized loss positions greater than 12 months with a fair value totaling $3.11 billion and an unrealized loss position totaling $178.6 million. As more fully discussed in Note 2, the new FASB guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary including: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, or (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Bank intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Bank does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. 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.

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 securities in the portfolio. 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) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes. Based on the results of all analyses, the Bank has recognized total other-than-temporary impairment during 2009 of $60.4 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 $60.4 million is separated into: 1) the estimated amount relating to credit loss ($26.2 million reflected in Net Income in the Statements of Income), and 2) the amount relating to all other factors ($34.2 million reflected in other comprehensive income in the Statement of Changes in Shareholders' Equity).

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. This technique requires key assumptions related to the underlying collateral, including default rates, degree and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics and collateral type.

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. The Bank obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults and the forecasted cumulative default rates used at December 31, 2009 ranged from 1% to 22% for non-agency CMO securities and from 13% to 62% for ABS securities. Prepayment rate assumptions are based on forecasted prepayments and resulted in prepayment rates that ranged from 9% to 15% for non-agency CMO securities and from 11% to 22% for ABS securities at December 31, 2009. At December 31, 2009, the loss severity rates estimated from assumptions ranged from 3% to 55% for non-agency CMO securities and from 52% to 100% for ABS securities.

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 from non-credit related factors. 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. 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 year ended December 31, 2009, net unrealized gains of $264.7 million were recognized in other comprehensive income for temporarily impaired available-for-sale investments.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings as of December 31, 2009:

(dollars in thousands)		For the Year ended December 31, 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		24,086
Increases to the amount related to credit loss for which other-than-temporary impairment was previously recognized		2,082
Ending balance at December 31, 2009	$	33,159

Note 4 — Loans and Allowance for Loan Losses

A summary of loans outstanding follows:

	December 31,		
(dollars in thousands)	2009	2008	2007
Direct notes receivable from District Associations	$ 14,890,794	$ 14,997,151	$ 14,602,548
Participations/syndications, net	4,758,465	4,925,744	3,470,300
Mortgage loans purchased in the secondary market	1,671,060	1,309,285	1,039,449
Loans to Other Financing Institutions	7,000	7,150	2,220
Total	$ 21,327,319	$ 21,239,330	$ 19,114,517

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations. As described in Note 1, these notes are used by the Associations to fund their loan portfolios which collateralize the notes. Therefore the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly, which further mitigates credit risk to the Bank.

The following table presents information relating to the Bank's impaired loans as defined in Note 2:

(dollars in thousands)	December 31, 2009	2008	2007
Impaired nonaccrual loans:			
Current as to principal and interest	$ 186,768	$ 174,926	$ 2,068
Past due	30,539	1,485	439
Impaired accrual loans:			
Restructured	–	–	–
90 days or more past due	10,211	11,325	1,356
Total impaired loans	$ 227,518	$ 187,736	$ 3,863

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2009.

The average balance for impaired loans during 2009, 2008 and 2007 was $215.8 million, $43.3 million and $5.3 million, respectively.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans:

(dollars in thousands)	Year Ended December 31, 2009	2008	2007
Interest income recognized on impaired nonaccrual loans	$ 4,369	$ 126	$ 276
Interest income on impaired accrual loans	129	96	19
Interest income recognized on impaired loans	$ 4,498	$ 222	$ 295

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

(dollars in thousands)	Year Ended December 31, 2009	2008	2007
Interest income which would have been recognized under the original loan terms	$ 16,747	$ 5,246	$ 322
Less: interest income recognized	4,369	126	276
Foregone interest income	$ 12,378	$ 5,120	$ 46

A summary of changes in the allowance for loan losses follows:

(dollars in thousands)	Year Ended December 31, 2009	2008	2007
Balance at beginning of year	$ 44,565	$ 2,816	$ 463
Provision for (reversal of) loan losses	46,648	43,342	2,481
Loans charged off	(59,080)	(1,751)	(128)
Recoveries	159	158	–
Balance at end of year	$ 32,292	$ 44,565	$ 2,816

The following table presents information concerning impaired loans and related allowance for loan losses as of December 31:

(dollars in thousands)	2009	2008	2007
Impaired loans with related allowance	$ 99,123	$ 136,040	$ 1,429
Impaired loans with no related allowance	128,395	51,696	2,434
Total impaired loans	$ 227,518	$ 187,736	$ 3,863
Allowance on impaired loans	$ 21,706	$ 32,409	$ 1,429

In addition, the following is a breakdown of the allowance for loan losses for the end of the last three fiscal years:

(dollars in thousands)	2009		2008		2007	
	Amount	%	Amount	%	Amount	%
Real Estate Mortgage	$11,583	36%	$ 12,885	29%	$ 958	34%
Production and Intermediate Term	11,606	36	8,203	18	380	13
Agribusiness	8,286	26	22,724	51	44	2
Energy	274	1	–	–	–	–
Communication	72	–	–	–	–	–
Rural Residential Real Estate	12	–	7	–	5	–
Other (including Mission Related)	459	1	746	2	1,429	51
Total	$32,292	100%	$ 44,565	100%	$ 2,816	100%

To mitigate risk of loan losses, District Associations have entered into Long-Term Standby Commitments to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the Bank. The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Associations the right to sell the loans identified in the agreements to the Bank, which can, in turn, sell them to Farmer Mac in the event of default, subject to certain conditions. Loans under Long-Term Standby Commitments to Purchase held by the Associations were $204.9 million at December 31, 2009. Fees paid to Farmer Mac for such commitments are paid by the Associations. Fees paid to government sponsored enterprises (GSEs) other than Farmer Mac were $5.3 million, $3.2 million, and $1.5 million for 2009, 2008, and 2007, respectively.

Note 5 — Premises and Equipment

Premises and equipment consisted of the following:

(dollars in thousands)	December 31, 2009	2008	2007
Land	$ 896	$ 896	$ 896
Buildings and improvements	7,083	6,375	5,921
Furniture and equipment	66,002	59,701	53,771
Work in progress	–	2,115	2,280
	73,981	69,087	62,868
Less: accumulated depreciation	59,492	51,026	42,118
Total	$ 14,489	$ 18,061	$ 20,750

Note 6 — Other Property Owned

Net gains (losses) on other property owned consisted of the following:

(dollars in thousands)	December 31, 2009	2008	2007
Gains (losses) on sale, net	$ –	$ –	$ 5
Operating income (expense), net	(2,824)	(19)	–
Total	$ (2,824)	$ (19)	$ 5

Deferred gains on sales of other property owned totaled $9.3 million for 2009 and $0 for 2008 and 2007. Gains were deferred as the sales involved financing from the Bank. The deferred gains are included in Loans in the Consolidated Balance Sheets.

Note 7 — Other Assets and Other Liabilities

A summary of other assets and other liabilities follows:

(dollars in thousands)	December 31, 2009	2008	2007
Other assets:			
Unamortized debt issue costs	$ 17,832	$ 20,647	$ 18,637
Prepaid retirement expenses	21,600	21,073	18,653
Deferred issuance costs – preferred stock	383	662	940
Derivative assets	70,041	124,982	33,187
Receivable from third party sub-servicer	25,749	19,179	12,567
Other	22,685	18,663	21,189
Total	$ 158,290	$ 205,206	$ 105,173
Other liabilities:			
Accounts payable	$ 6,641	$ 5,710	$ 3,315
Farm Credit System Ins. Corp. payable	48,029	35,197	28,211
Derivative liabilities	229	469	2,560
Postretirement benefits other than pensions	15,483	15,509	15,445
Cash collateral pledged from derivative counterparties	14,065	7,963	–
Other	17,992	15,928	14,680
Total	$ 102,439	$ 80,776	$ 64,211

Note 8 — Bonds and Notes

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued by the banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets, at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks. The System banks and the Funding Corporation have entered into the Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. The MAA was amended and restated in July 2003. At December 31, 2009, AgFirst was in compliance with the conditions of participation for the issuances of Systemwide Debt Securities.

Each issuance of Systemwide Debt Securities ranks equally, in accordance with the FCA regulations, with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The System may issue the following types of Systemwide Debt Securities:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Master Notes,
- Federal Farm Credit Banks Global Debt Securities, and
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes.

Additional information regarding Systemwide Debt Securities can be found in their respective offering circulars.

In the following table regarding AgFirst's participation in outstanding Systemwide Debt Securities, weighted average interest rates include the effect of related derivative financial instruments.

	Bonds		Discount Notes		Total	
Maturities	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
			(dollars in thousands)			
2010	$ 9,421,011	0.87%	$ 4,517,536	0.41%	$ 13,938,547	0.72%
2011	5,973,495	1.20	–	–	5,973,495	1.20
2012	2,114,199	1.96	–	–	2,114,199	1.96
2013	1,967,189	2.83	–	–	1,967,189	2.83
2014	1,076,936	3.19	–	–	1,076,936	3.19
2015 and after	3,623,647	4.19	–	–	3,623,647	4.19
Total	$ 24,176,477	1.81%	$ 4,517,536	0.41%	$ 28,694,013	1.59%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at December 31, 2009, was 102 days.

Systemwide debt includes callable bonds consisting of the following:

Amortized Cost (dollars in thousands)	First Call Date	Year of Maturity
$ 10,371,000	2010	2010 - 2024
31,000	2011	2013 - 2024
10,000	2012	2017
10,000	2013	2018
$ 10,422,000	Total	

Most callable debt may be called on the first call date and any time thereafter.

As described in Note 1, the Insurance Fund is available to ensure the timely payment of principal and interest on Systemwide Debt Securities (Insured Debt) of System banks to the extent net assets are available in the Insurance Fund and not designated for specific use. All other liabilities on the financial statements are uninsured. At December 31, 2009 the assets of the Insurance Fund aggregated $3.299 billion; however, due to the other authorized uses of the Insurance Fund there is no assurance that any available amount in the Insurance Fund will be sufficient to fund the timely payment of principal or interest on an Insured Debt obligation in the event of a default by any System bank having primary liability thereon.

Note 9 — Mandatorily Redeemable Preferred Stock

On May 17, 2001, AgFirst issued $225.0 million of Mandatorily Redeemable Cumulative Preferred Stock at a par value of $1 thousand per share. This stock is mandatorily redeemable on December 15, 2016. The stock carries a stated annual dividend rate of 8.393 percent until December 15, 2011, with dividends paid semi-annually in arrears on June 15th and December 15th. Commencing March 15, 2012, dividends are paid quarterly in arrears at a floating rate per annum equal to 3 month LIBOR plus 3.615 percent. On or after the dividend payment date in December 2011, the preferred stock will be redeemable in whole or in part at the option of AgFirst on any dividend payment date at par value of $1 thousand per share together with accrued and unpaid dividends to the redemption date. The Mandatorily Redeemable Preferred Stock is reported as a liability and the related dividends are reported as interest expense. Although the Mandatorily Redeemable Preferred Stock is required to be reported as a liability under GAAP, it qualifies as capital for certain regulatory purposes.

Note 10 — Shareholders' Equity

Descriptions of the Bank's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below:

A. **Description of Equities:** In accordance with the Farm Credit Act and the Bank's capitalization bylaws, the Bank is authorized to issue and have outstanding Classes B, C, and D Common Stock, Participation Certificates, Preferred Stock, and other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Bank's business. All Common Stock and Participation Certificates have a par or face value of five dollars ($5.00) per share.

The Bank had the following shares of common equities outstanding at December 31, 2009:

		Shares Outstanding (dollars in thousands)	
Class	Protected Status	Number	Aggregate Par Value
B Common/Nonvoting	No	1,600,000	$ 8,000
C Common/Voting	No	84,223,119	421,116
D Common/Nonvoting	No	1,889,020	9,445
Participation Certificates/Nonvoting	No	29,261	146
Total Capital Stock and Participation Certificates		87,741,400	$ 438,707

B. **Perpetual Preferred Stock:** On October 14, 2003, AgFirst issued $150.0 million of Perpetual Non-Cumulative Preferred Stock at a par value of $1 thousand per share. Dividends on the stock are non-cumulative and payable on the 15th day of June and December in each year, commencing December 15, 2003, at an annual rate equal to 7.30 percent. In the event dividends are not declared on the preferred stock for payment on any dividend payment date, then such dividends shall not cumulate and shall cease to accrue and be payable. On or after the dividend payment date in December 2008, AgFirst may, at its option, redeem the preferred stock in whole or in part at any time at the redemption price of $1 thousand per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption.

On June 8, 2007, AgFirst issued $250.0 million of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock, Series 1. Dividends on the stock are non-cumulative and are payable semi-annually in arrears on the 15th day of June and December in each year, commencing December 15, 2007, and ending on June 15, 2012, at an annual rate equal to 6.585 percent of the par value of $1 thousand per share, and will thereafter, commencing September 15, 2012, be payable quarterly in arrears on the 15th day of March, June, September, and December in each year, at an annual rate equal to 3-Month USD LIBOR plus 1.13 percent. In the event dividends are not declared on the Class B, Series 1 Preferred Stock for payment on any dividend payment date, then such dividends shall not cumulate and shall cease to accrue and be payable.

Payment of dividends or redemption price on the Preferred Stock may be restricted if the Bank fails to satisfy applicable minimum capital adequacy, surplus, and collateral requirements.

C. **Capital Stock:** District Associations are required to maintain ownership in the Bank in the form of Class B or Class C Common Stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital levels.

Additionally, the Bank has issued Class D Common Stock in connection with participations purchased by the Bank from other System institutions. Class D Common Stock issued in connection with participations has no voting rights. Such Stock may be retired at the discretion of the Board, and if retired, shall be retired at book value not to exceed its par value.

Class D Common Stock shall also be purchased by borrowers eligible to hold it as a condition for obtaining a loan in an amount as may be determined by the Board at its discretion within a range between a minimum of two percent (2.00%) of the loan amount or $1 thousand, whichever is less, and a maximum not to exceed ten percent (10.00%)

of the loan amount. The Bank currently has no such loans outstanding.

D. **Other Equity:** At the inception of each Other Financing Institution (OFI) loan, the Bank requires OFIs to make cash purchases of participation certificates in the Bank. The Bank has a first lien on these equities for the repayment of any indebtedness to the Bank.

E. **Order of Priority Upon Impairment or Liquidation:**

Impairment

Net losses, to the extent they exceed unallocated surplus, shall, except as otherwise provided in the Act, be treated as impairing Stock in the following order:

First, Class B Common Stock, Class C Common Stock, Class D Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of Stock then issued and outstanding, until such Stock is fully impaired; and

Second, Preferred Stock in proportion to the number of shares of each class and series thereof then issued and outstanding (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in reverse order of priority first to the most junior ranking series and then successively to each next most junior ranking series) and consistent with the terms of each such class or series until such Stock is fully impaired; and

Third, subject to the Act, as amended, and the regulations thereunder, in such manner as shall be determined by the Board.

Liquidation

In the event of liquidation or dissolution of AgFirst, any assets of AgFirst remaining after payment or retirement of all liabilities shall be distributed in the following order or priority:

First, to the holders of Preferred Stock, in proportion to the number of shares of each class and series thereof then issued and outstanding and consistent with the terms of each such series until an amount equal to the liquidation preference provided for in the terms of such series of Preferred Stock has been distributed to such holders (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in order of priority first to the most senior ranking series and then successively to each next most senior ranking series); and

Second, to the holders of Class B Common Stock, Class C Common Stock, Class D Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of Stock then issued and outstanding, until an amount equal to the aggregate par or face value of all such shares or units has been distributed to such holders; and

Third, in accordance with the memorandum accounting established in the Agreement and Plan of Consolidation between The Farm Credit Bank of Columbia and The Farm Credit Bank of Baltimore, dated as of October 31, 1994; and

Fourth, all remaining assets of AgFirst after such distributions shall be to the extent practicable distributed to all Stockholders and holders of Participation Certificates on a patronage basis.

F. **Regulatory Capitalization Requirements and Restrictions:** FCA's capital adequacy regulations require the Bank to achieve permanent capital of seven percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the seven percent permanent capital requirement can lead to the initiation of certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Bank's operations and Consolidated Financial Statements. The Bank is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. FCA Regulations also require all System institutions to achieve and maintain additional capital adequacy ratios as defined by FCA Regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of seven percent and core surplus as a percentage of risk-adjusted assets of three and one-half percent. The Bank's permanent capital, total surplus and core surplus ratios at December 31, 2009 were 16.86 percent, 16.83 percent and 9.85 percent, respectively. The FCA notified AgFirst that the June 2007 issuance of $250.0 million of Perpetual Non-Cumulative Subordinated Preferred Stock could be included in core surplus up to an amount not to exceed 25.00 percent of total core surplus, inclusive of the preferred stock component. At December 31, 2009, the full amount of this preferred stock issuance could be included in core surplus.

Capital adequacy is also evaluated using a ratio of net collateral to total liabilities. Subsequent to the issuance of the mandatorily redeemable preferred stock, FCA now requires AgFirst to maintain a minimum net collateral ratio of 104.00 percent compared to the regulatory minimum of 103.00 percent. At December 31, 2009, the Bank's net collateral ratio was 105.66 percent. For purposes of calculating this ratio, net collateral is not risk adjusted.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Bank has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

G. **Accumulated Other Comprehensive Income (Loss):** Accumulated other comprehensive income (loss) at December 31 was comprised of the following components:

(dollars in thousands)	2009	2008	2007
Unrealized (losses) gains on investments available-for-sale	$ (121,088)	$ (355,791)	$ (37,754)
Employee benefit plan adjustments	(2,116)	(1,401)	(953)
Total accumulated other comprehensive income (loss)	$ (123,204)	$ (357,192)	$ (38,707)

Note 11 — Employee Benefit Plans

The Bank participates in four District sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan. Financial information regarding each of these plans follows.

Substantially all employees of the Bank are eligible to participate in either the defined benefit final average pay retirement plan (the FAP Plan) or the defined benefit cash balance retirement plan (CB Plan). These two Plans are noncontributory and include eligible Bank and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution into the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Bank, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. As a participant in these plans, the Bank funded $8.3 million for 2009, $4.1 million for 2008, and provided no funding in 2007. Plan expenses included in employee benefit costs were $7.8 million for 2009, $1.7 million for 2008, and $2.6 million for 2007. The cumulative excess of amounts funded by the Bank over the cost allocated to the Bank is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Bank provides certain health care benefits for eligible retired employees (other postretirement benefits) through a District benefit plan. Substantially all of the Bank employees may become eligible for the benefits if they reach early retirement age while working for the Bank. Early retirement age is defined as a minimum of age 50 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided life insurance benefits under the plan. Certain Bank charges related to this plan are an allocation of District charges based on the Bank's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $884 thousand for 2009, $862 thousand for 2008, and $999 thousand for 2007. The cumulative excess of cost allocated to the Bank over the amounts funded by the Bank is reflected as postretirement benefits other than pensions, a component of other liabilities in the Bank's Consolidated Balance Sheets.

The Bank also participates in the defined contribution AgFirst/ FCBT 401(k) Employee Benefit Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Bank contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Bank contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $973 thousand, $871 thousand, and $761 thousand for the years ended December 31, 2009, 2008, and 2007, respectively.

In addition to the multi-employer plans above, the Bank sponsors a single employer defined benefit supplemental retirement plan, two defined contribution supplemental retirement plans, and offers a deferred compensation plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Bank's Consolidated Balance Sheets in Other Liabilities. The Bank funded the benefit payments of $252 thousand for each of the years of 2009, 2008, and 2007 for the defined benefit supplemental retirement plan. The expenses of these nonqualified plans included in the Bank's employee benefit costs were $55 thousand, $48 thousand, and $6 thousand for the years ended December 31, 2009, 2008, and 2007, respectively.

On December 31, 2007, the Bank adopted FASB issued additional guidance for the single employer defined benefit supplemental retirement plan. Under this guidance, accounting for the impact of the adoption of the standard follows the plan sponsor, which for multi-employer plans in which the Bank participates is at the District entity level. Therefore, there is no impact to the Bank's financial statements for the adoption of this guidance for the two defined benefit multi-employer plans discussed above. The guidance requires an employer to recognize the overfunded or underfunded status of defined benefit pension and other postretirement benefit plans as an asset or liability in its statement of financial position and recognize changes in that funded status through AOCI. For the one single employer supplemental retirement defined benefit plan sponsored by the Bank, adoption of the guidance is reflected as an adjustment to AOCI of $953 thousand in the Bank's Consolidated Statement of Changes in Shareholders' Equity at December 31, 2007.

FASB guidance also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Bank allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) is reflected as an adjustment to beginning 2008 unallocated retained earnings. As a result, the Bank decreased unallocated retained earnings by $138 thousand for the single employer defined benefit supplemental plan.

FASB guidance further required the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Prior to adoption of the guidance, these amounts were netted against the plan's funded status in the Bank's Consolidated Balance Sheets pursuant to the provisions of the guidance. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2009 and 2008, $715 thousand and $448 thousand, respectively, has been recognized as a net debit to AOCI to reflect these elements.

The supplemental retirement plan is unfunded and had a projected benefit obligation of $7.0 million and a net under-funded status of $7.0 million at December 31, 2009. Net periodic pension cost for the period was $714 thousand. Assumptions used to determine the projected benefit obligation as of December 31, 2009 included a discount rate of 6.00 percent and a rate of compensation increase of 4.50 percent. Additional financial information for the four District sponsored multi-employer plans may be found in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2009 Annual Report.

Note 12 — Related Party Transactions

As discussed in Note 1, the Bank lends funds to the District Associations primarily to fund their loan portfolios. Further disclosure regarding these related party transactions is found in Notes 4, 10, and 14.

Interest income recognized on direct notes receivable from District Associations was $536.9 million, $709.0 million and $830.9 million for 2009, 2008, and 2007, respectively.

The Bank has had participation loans outstanding during the last year to certain of its directors, their immediate family members, and organizations with which the directors are affiliated. These loans were made in the ordinary course of business, and were made on the same terms, including interest rate, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons. No loan to a director, or to any organization affiliated with such person, or to any immediate family member who resides in the same household as such person or in whose loan or business operation such person has a material financial or legal interest, involved more than the normal risk of collectibility.

Note 13 — Regulatory Enforcement Matters

At December 31, 2009, there were no regulatory enforcement matters or agreements in place with the Bank and FCA.

Note 14 — Commitments and Contingencies

The Bank has various contingent liabilities and commitments outstanding as discussed elsewhere in these notes to the Consolidated Financial Statements. While primarily liable for its portion of System bonds and notes, the Bank is jointly and severally liable for the bonds and notes of the other System banks. The total bonds and notes of the System at December 31, 2009, were $177.30 billion.

In the normal course of business, the Bank may participate in credit related financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers or the borrowers of the District Associations. These financial instruments include standby letters of credit, various guarantees and commitments to extend credit.

The Bank participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2009, the Bank had outstanding $221.5 million of standby letters of credit issued on behalf of District and non-district customers, with expiration dates ranging from February 2010 to February 2018. The maximum potential amount of future payments the Bank may be required to make under these existing guarantees is $221.5 million.

A guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the guarantee commitment. The Bank has determined the fair value of the guarantee commitment based upon the fees to be earned over the life of the guarantee. The fair value is updated periodically to reflect changes in individual guarantee amounts and the remaining life to maturity of the individual guarantees in the Bank's inventory. At December 31, 2009, the Bank's inventory of standby letters of credit had a fair value of $2.5 million and was included in other liabilities.

The Bank also guarantees certain loans held by District Associations in the amount of $16.4 million expiring in less than one year and $1.8 million expiring in one to three years. The notional amounts of these guarantees represent the maximum amount of exposure the Bank has related to these instruments as of December 31, 2009.

At December 31, 2009, $1.36 billion of commitments to extend credit were outstanding. Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these financial instruments have off-balance-sheet credit risk because their amounts could be drawn upon at the option of the borrower. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the loan collateral is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

Legal actions are pending against the Bank in which claims for money damages are asserted. On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Bank.

Note 15 — Fair Value Measurement

As discussed in Note 2, 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 disclosures 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 December 31, 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 December 31, 2009 include derivative contracts and investment securities in U.S. government and 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 December 31, 2009 include certain loans evaluated for impairment under FASB guidance which have fair values based upon the underlying collateral as the loans were collateral-dependent. Since the value of the collateral, less estimated costs to sell, was less than the principle balance of the loan, specific reserves were established for these 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.

Level 3 assets at December 31, 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 these 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 December 31, 2009. The fair value for other property owned is based upon the collateral fair value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned.

Level 3 liabilities at December 31, 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 tables present the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2009 and 2008 for each of the fair value hierarchy levels. As discussed in Note 2, the requirement for a more detailed fair value disclosure of investments available-for-sale began in 2009.

	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale:				
U.S. Govt. GNMA MBS/CMOs	$ –	$ 3,857,158	$ –	$ 3,857,158
U.S. Govt. Agency MBS	–	2,573,375	–	2,573,375
Non-Agency CMOs	–	–	360,027	360,027
Asset-Backed Securities	–	–	47,465	47,465
Commercial paper, Bankers' Acceptances, CD's & Others	–	86,690	–	86,690
Federal funds sold, securities purchased under resale agreements, and other	–	146,201	–	146,201
Interest rate swaps and other financial instruments	–	70,041	–	70,041
Assets held in trust funds	2,825	–	–	2,825
Total Assets	$ 2,825	$ 6,733,465	$ 407,492	$ 7,143,782
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ 229	$ –	$ 229
Collateral liabilities	–	14,065	–	14,065
Standby letters of credit	–	–	2,461	2,461
Total Liabilities	$ –	$ 14,294	$ 2,461	$ 16,755

	December 31, 2008			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale	$ –	$ 6,183,596	$ 79,961	$ 6,263,557
Federal funds sold, securities purchased under resale agreements, and other	–	187,630	–	187,630
Interest rate swaps and other financial instruments	–	124,982	–	124,982
Assets held in trust funds	2,435	–	–	2,435
Total Assets	$ 2,435	$ 6,496,208	$ 79,961	$ 6,578,604
Liabilities:				
Interest rate swaps and other financial instruments	$ –	$ 469	$ –	$ 469
Collateral liabilities	–	7,963	–	7,963
Standby letters of credit	–	–	2,301	2,301
Total Liabilities	$ –	$ 8,432	$ 2,301	$ 10,733

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for 2009 and 2008. 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	(20,949)	(3,775)	–
Included in other comprehensive loss	27,955	46,108	–
Purchases, sales, issuances and settlements, net	(39,502)	(79,626)	160
Transfers in and/or out of level 3	–	397,320	–
Balance at December 31, 2009	$ 47,465	$ 360,027	$ 2,461

(dollars in thousands)	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2008	$ 166,551	$ –	$ 2,322
Total gains or (losses) realized/unrealized:			
Included in earnings	(10,465)	–	–
Included in other comprehensive loss	(26,028)	–	–
Purchases, sales, issuances and settlements, net	(50,097)	–	(21)
Transfers in and/or out of level 3	–	–	–
Balance at December 31, 2008	$ 79,961	$ –	$ 2,301

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 December 31, 2009 and 2008 for each of the fair value hierarchy values are summarized below. As discussed in Note 2, the requirement for fair value disclosure of nonfinancial instruments, such as other property owned, began in 2009.

	December 31, 2009				
(dollars in thousands)	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 77,417	$ 77,417	$ (48,218)
Other property owned	$ –	$ –	$ 27,969	$ 27,969	$ –

	December 31, 2008				
(dollars in thousands)	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 103,631	$ 103,631	$ (32,573)

Note 16 — Disclosures about Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Bank's financial instruments at December 31, 2009, 2008, and 2007.

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.

	December 31, 2009		December 31, 2008		December 31, 2007	
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:						
Loans, net of allowance	$ 21,295,027	$ 21,509,619	$ 21,194,765	$ 21,604,573	$ 19,111,701	$ 19,323,045
Derivative assets	$ 70,041	$ 70,041	$ 124,982	$ 124,982	$ 33,187	$ 33,187
Cash and cash equivalents	$ 938,884	$ 938,884	$ 277,003	$ 227,003	$ 558,770	$ 558,770
Investment securities	$ 8,226,209	$ 8,264,765	$ 7,993,157	$ 8,026,742	$ 6,908,797	$ 6,886,928
Assets held in trust funds	$ 2,825	$ 2,825	$ 2,435	$ 2,435	$ 3,612	$ 3,612
Financial liabilities:						
Systemwide Debt Securities	$ 28,694,013	$ 28,711,990	$ 28,053,023	$ 28,266,307	$ 24,847,248	$ 24,908,245
Derivative liabilities	$ 229	$ 229	$ 469	$ 469	$ 2,560	$ 2,560

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 utilized as 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 15.

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 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 internal market valuation models. See additional information in Note 15.

F. **Assets Held In Trust Funds:** See Note 15 for discussion of estimation of fair value for these assets.

Note 17 — 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, to allow it to diversify sources of funding, or to 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 year ended December 31, 2009 is summarized in the following table:

(dollars in millions)		Receive-Fixed Swaps
Balance at beginning of period	$	2,223
Additions		100
Maturities/amortization		(750)
Terminations		(200)
Balance at end of period	$	1,373

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 gross credit risk exposure at December 31, 2009 of $70.0 million was with eight counterparties and represented approximately 5.08 percent of the total notional amount of interest rate swaps. The Bank held $14.1 million of interest-bearing cash collateral posted by one counterparty related to these swaps. The Bank does not anticipate nonperformance by any of these counterparties. The estimated gross credit risk exposure at December 31, 2008 of $117.0 million was with eight counterparties and represented approximately 5.26 percent of the total notional amount of interest rate swaps. The Bank held $8.0 million of interest-bearing cash collateral posted by one counterparty related to these swaps. 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 December 31, 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 year ended December 31, 2009 was $55.2 million, while the amount of the loss on the Systemwide Debt Securities was ($55.2) 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	12/31/09 Fair Value	Balance Sheet Classification Liabilities	12/31/09 Fair Value
Derivatives designated as hedging instruments :				
Receive-fixed swaps	Other Assets	$70,041	Other Liabilities	$229
Total		$70,041		$229

The following table sets forth the effect of derivative instruments on the Statement of Income for the year ended December 31, 2009. Amount presented is net.

(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	$469
Total		$469

Note 18 — Additional Derivative Financial Instruments and Other Financial Instruments Disclosures

The table below provides information about derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information below represents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information below represents the notional amounts and weighted average interest rates by expected maturity dates.

December 31, 2009 *(dollars in millions)*	Maturities of 2009 Derivative Products and Other Financial Instruments 2010	2011	2012	2013	2014	2015 and after	Total	Fair Value
Systemwide Debt Securities:								
Fixed rate	$ 7,906	$ 3,496	$ 2,034	$ 1,964	$ 1,077	$ 3,597	$ 20,074	$ 20,145
Weighted average interest rate	0.97%	1.86%	2.03%	2.83%	3.19%	4.22%	2.12%	
Variable rate	6,032	2,477	81	3	–	27	8,620	8,567
Weighted average interest rate	0.39%	0.27%	0.22%	0.22%	–	0.80%	0.35%	
Derivative Instruments:								
Receive fixed swaps								
Notional value	$ 288	$ 600	$ 175	$ 60	$ –	$ 250	$ 1,373	$ 70
Weighted average receive rate	4.71%	4.10%	3.07%	3.99%	–	5.07%	4.27%	
Weighted average pay rate	1.30%	2.63%	3.62%	4.30%	–	4.78%	2.95%	
Total notional value	$ 288	$ 600	$ 175	$ 60	$ –	$ 250	$ 1,373	$ 70
Total weighted average rates on swaps:								
Receive rate	4.71%	4.10%	3.07%	3.99%	–	5.07%	4.27%	
Pay rate	1.30%	2.63%	3.62%	4.30%	–	4.78%	2.95%	

Note 19 — Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2009, 2008 and 2007 follow:

(dollars in thousands)	2009 First	Second	Third	Fourth	Total
Net interest income	$ 107,547	$ 117,654	$ 124,173	$ 140,287	$ 489,661
Provision for (reversal of allowance for) loan losses	16,701	18,194	19,493	(7,740)	46,648
Noninterest income (expense), net	(38,332)	(35,531)	(27,141)	(32,866)	(133,870)
Net income	$ 52,514	$ 63,929	$ 77,539	$ 115,161	$ 309,143

	2008 First	Second	Third	Fourth	Total
Net interest income	$ 78,440	$ 86,546	$ 97,955	$ 103,580	$ 366,521
Provision for (reversal of allowance for) loan losses	660	6,065	2,799	33,818	43,342
Noninterest income (expense), net	(28,790)	(23,432)	(17,002)	(36,788)	(106,012)
Net income	$ 48,990	$ 57,049	$ 78,154	$ 32,974	$ 217,167

	2007 First	Second	Third	Fourth	Total
Net interest income	$ 59,246	$ 60,053	$ 67,680	$ 73,899	$ 260,878
Provision for (reversal of allowance for) loan losses	262	(114)	557	1,776	2,481
Noninterest income (expense), net	(13,569)	(12,758)	(14,942)	(24,919)	(66,188)
Net income	$ 45,415	$ 47,409	$ 52,181	$ 47,204	$ 192,209

Note 20 – District Merger Activity

During September 2009, the Board of Directors of Farm Credit of the Virginias, ACA, and AgChoice Farm Credit, ACA entered into a letter of intent to merge. The letter of intent to merge allowed Farm Credit of the Virginias, ACA, and AgChoice Farm Credit, ACA to explore the benefits of a merger. During February 2010, the Board of Directors of both these associations mutually concluded that the proposed merger was not in the best interest of their respective stockholders.

Note 21 - Subsequent Events

The Bank has evaluated subsequent events and has determined there are none requiring disclosure through March 12, 2010, which is the date the financial statements were issued.

Keepin' It Rural

Keepin' It Rural for nearly a century.

At Farm Credit, we know what it means to "keep it rural." For nearly a century, we have served America's farmers and ranchers in good times and bad. We are unwavering from our mission to improve the quality of life in rural America. And, because we are owned by the people we serve, our mission focus is assured.

We accomplish our mission by providing sound, adequate and constructive credit and financial services to those who live and work in rural America. We use our knowledge and expertise every day to ensure that American agriculture has the resources it needs to feed American families and compete in the global marketplace.

As rural America's customer-owned partner, Farm Credit will continue to "keep it rural" so that farmers and their rural communities will continue to thrive and grow for generations to come.

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