


SECOND QUARTER 2010

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CERTIFICATION


The undersigned certify that we have reviewed the June 30, 2010 quarterly report of Ag Credit Agricultural Credit Association, 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.



Neil L. Jordan
Chief Executive Officer



Daniel E. Ebert
Chief Financial Officer



Harold S. Dalton, Jr.
Chairman of the Board

August 6, 2010

AgCredit Agricultural Credit Association

Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2010. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of June 30, 2010, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2010.



Neil L. Jordan
Chief Executive Officer



Daniel Ebert
Chief Financial Officer

August 6, 2010

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Ag Credit Agricultural Credit Association (Association) for the three and six months ended June 30, 2010. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2009 Annual Report of the Association. The accompanying consolidated financial statements (financial statements) were prepared under the oversight of the Audit Committee of the Board of Directors, which includes Paul N. Aley, Charles L. Bostdorff and Scott A. Schroeder. The results for the first six months of 2010 are not necessarily indicative of results to be expected for the year.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities, including general cash grain crops, livestock and horticultural products. These commodities totaled approximately \$828,418 or 78.88 percent of the loan portfolio as of June 30, 2010. The Association recognizes the commodity concentration risk exceeds normally accepted industry standards. This risk is partially offset by non-farm income sources for many borrowers, especially less than full-time farmers. More significant offsets to the commodity concentration risk are borrower participation in crop insurance programs and the Association's use of governmental loan guarantees. The loan guarantees are obtained through the U. S. Department of Agriculture (USDA) Farm Service Agency (FSA), and Rural Development Business and Industry (B&I) loan guarantee programs. As of June 30, 2010 the Association has \$335,686 of guaranteed loan volume, which is 31.96 percent of loans as compared to \$276,863 of guaranteed volume or 29.51 percent of the portfolio at June 30, 2009. Loan guarantees reduce the potential of loss in the Association's loan portfolio and help to leverage the Association's capital.

Gross loan volume of the Association as of June 30, 2010 was \$1,050,258, an increase of \$4,074 as compared to \$1,046,184 at December 31, 2009. The 0.39 percent increase in loan volume is related to the normal, seasonal reduction in production and intermediate-term (IT) volume, a reduction in agribusiness and process and marketing type loan volume offset by increased

real estate mortgage and rural residential real estate volume. The increase in real estate mortgage loans and residential real estate loans is related to the demand for credit and our efforts to earn the business of quality, credit worthy borrowers in these two portfolio segments during the second quarter of 2010. The agribusiness and process and marketing segment of the portfolio decreased due to the payoff of a large commercial credit and the increase in participations sold volume. From June 30, 2009 to June 30, 2010 volume increased by \$112.1 million or 11.95 percent. Net loans outstanding at June 30, 2010 were \$1,043,543 as compared to \$1,037,354 at December 31, 2009. Net loans accounted for 95.9 percent of total assets at June 30, 2010 as compared to 95.7 percent at December 31, 2009.

The following table summarizes the Association's risk assets (accruing volume includes accrued interest receivable):

	<u>6/30/10</u>	<u>12/31/09</u>
Nonaccrual loans	\$ 4,193	\$ 8,550
Restructured loans	110	117
Accruing loans 90 days or more past due	11	8
Total high risk loans	4,314	8,675
Other property owned	-	-
Total high-risk assets	<u>\$ 4,314</u>	<u>\$ 8,675</u>
Ratios:		
Nonaccrual loans to total loans	0.40%	0.82%
High-risk assets to total assets	<u>0.40%</u>	<u>0.80%</u>

Risk assets decreased due to the reduction in nonaccrual loans resulting from the payoff of a large participation purchased loan and payments made on other nonaccrual loans.

There is an inherent risk in the extension of any type of credit, and, accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio.

Portfolio credit quality deteriorated slightly during the first six months of 2010 but remains strong and credit administration is satisfactory. During the first six months of 2010 the Association recorded a decrease in the allowance of \$2,115 as a result of a \$1,728 charge off and a decrease in the provision for loan losses of \$387. For the same period of 2009, the Association recorded an increase in the allowance of \$956 and recognized net recoveries of \$20. The allowance was \$6,715 at June 30, 2010 and \$8,830 at December 31, 2009. The allowance for loan losses represented 0.64 percent and 0.84 percent of loans at June 30, 2010 and December, 31, 2009, respectively.

RESULTS OF OPERATIONS

For the three months ending June 30, 2010

Net income for the three months ended June 30, 2010 (Q2 2010) was \$8,207, an increase of \$3,027 or 58.44 percent when compared to the net income of \$5,180 for the same period in 2009 (Q2 2009). Major changes in the components of net income when comparing Q2 2010 to Q2 2009 are identified as follows:

- Net interest income increased by \$1,076 or 16.50 percent. The increase resulted from earnings on increased loan volume and increased earnings spreads on loans from the significant loan re-pricing activities of the past twelve months.
- The risks identified in the portfolio at June 30, 2010 required a quarterly reversal of allowance for loan losses of \$695. The Association recorded a \$381 provision for loan losses in Q2 2009. The net change when comparing the two quarters is a \$1,076 increase in income.
- Noninterest income increased by \$692 or 36.40 percent for the following reasons:

Equity in earnings of AgFirst Farm Credit Bank increased by \$734 as a result of the increase in the Association's average note payable balance with The AgFirst Farm Credit Bank (the Bank) and a special distribution from the Bank of \$560. The average note payable balance increased as a result of the year-to-year increase in loan volume previously discussed.

Loan fees decreased by \$27 primarily due to lower secondary mortgage market loan fee income. Fees for financially related services increased by \$6 due to increased appraisal fee income. Miscellaneous non-interest income decreased by \$21 as a result of recording a \$22 gain on the sale of assets in Q2 2009.

- Noninterest expense decreased by \$182 or 6.44 percent. Salary and benefits expense increased due to increased expenses related to scheduled salary increases, additional employees, salary related benefits and health insurance premiums offset by reduced pension and other post retirement expenses. Insurance premium expenses decreased primarily as a result of the reduction in premium rates on non-guaranteed loans. Occupancy and equipment expenses decreased as a result of lower maintenance and utility costs. Other operating expenses decreased primarily due to reduced loan guarantee expenses.
- The provision for income taxes was \$38 and \$39 for Q2 2010 and Q2 2009, respectively.

For the six months ending June 30, 2010

Net income for the six months ended June 30, 2010 (YTD 2010) was \$15,426, which is an increase of \$5,267 or 51.85 percent when compared to the net income of \$10,159 for the same period in 2009 (YTD 2009). Major changes in the components of net income when comparing YTD 2010 to YTD 2009 are identified as follows:

- Net interest income increased by \$2,298 or 17.79 percent. The increase is a result of the same reasons previously discussed.
- The risks identified in the portfolio at June 30, 2010 required a year-to-date reversal of allowance for loan losses of \$387. The Association recorded a YTD 2009 provision for loan losses of \$956. The net change when comparing the two YTD periods was a \$1,343 increase in income.
- Noninterest income increased by \$1,619 or 41.41 percent for the following reasons:

Equity in earnings of AgFirst Farm Credit Bank increased by \$894 due to the same reasons previously discussed.

During first half of 2010, the Association recorded \$940 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm credit Insurance fund exceeding the secure base amount as defined by the Farm Credit Act. No such income was recorded in the first half of 2009.

Loan fees decreased by \$188 primarily due to lower secondary mortgage market and participation loan fee income. Fees for financially related services decreased by \$9 due to lower multiperil crop insurance income. Miscellaneous non-interest income decreased by \$18 primarily for the reason previously discussed.

- Noninterest expense decreased by \$12 or 0.21 percent. Salary and benefits expense increased by \$380, Occupancy and equipment decreased by \$25 and Insurance premium expenses decreased by \$413 for the reasons previously discussed. Other operating expenses increased by \$46 primarily due to increased loan guarantee expenses.
- The provision for income taxes was \$77 and \$72 for YTD 2010 and YTD 2009, respectively.

The following table shows the key results of operations ratios for the six months ended June 30, 2010 and June 30, 2009, respectively.

	<u>6/30/10</u>	<u>6/30/09</u>
Return on average assets	2.91%	2.16%
Return on average equity	19.52%	14.15%
Net interest margin	2.97%	2.85%

The changes in these ratios are directly related to the changes in income discussed in the Results of Operations section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Capital Resources section.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. Additional information on the GFA, liquidity, funding process and funding management is found on page 15 and 16 of the 2009 Annual Report. The total notes payable to the Bank at June 30, 2010 was \$908,963 as compared to \$916,460 at December 31, 2009. The \$7,497 or 0.82 percent decrease is primarily attributed to the receipt of the Bank's 2009 patronage refund to the Association of \$7,588, the \$940 of FCSIC insurance premium refunds, and the \$560 of special distribution from the Bank as well as improved earnings. These were offset by increased borrowing on the Association's loan with the Bank resulting from the loan volume increase since December 31, 2009 as previously discussed.

CAPITAL RESOURCES

Total members' equity totaled \$169,183 at June 30, 2010 as compared to \$150,827 at December 31, 2009 for an increase of \$18,356 or 12.17 percent. The increase is a result of an increase in capital stock and participation certificates and year-to-date earnings offset by lower allocated equities.

FCA regulations require that all Farm Credit institutions maintain a minimum permanent capital ratio of 7.0 percent and a total surplus and core surplus ratios equal to 3.5 percent. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus by a risk-adjusted asset base. At June 30, 2010, the Association's permanent capital, total surplus and core surplus ratios equaled 18.32 percent, 16.29 percent and 14.70 percent, respectively.

Note: The Association obtains funding from AgFirst Farm Credit Bank (the Bank). The Association is materially affected and shareholder investment could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, www.agfirst.com or may be obtained at no charge by calling 1-800-845-1745, extension 2378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202.

Copies of the Association's Quarterly and Annual Reports are available on the Association's website, www.agcredit.net, or may be obtained upon request free of charge by calling 1-800-837-3678, extension 1023, or writing Daniel Ebert, Chief Financial Officer, Ag Credit, ACA, 610 W Lytle Street, Fostoria, OH 44830. The Association prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

AgCredit Agricultural Credit Association

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2010	December 31, 2009
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash	\$ 2,821	\$ 402
Investment securities:		
Held to maturity (fair value of \$4,711 and \$4,662 respectively)	4,374	4,316
Loans	1,050,258	1,046,184
Less: allowance for loan losses	6,715	8,830
Net loans	1,043,543	1,037,354
Accrued interest receivable	16,781	16,638
Investment in other Farm Credit institutions	13,853	13,973
Premises and equipment, net	2,085	2,061
Due from AgFirst Farm Credit Bank	3,469	7,402
Other assets	1,530	1,676
Total assets	<u>\$ 1,088,456</u>	<u>\$ 1,083,822</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 908,963	\$ 916,460
Accrued interest payable	2,317	2,298
Patronage refund payable	36	5,647
Advanced conditional payments	623	440
Other liabilities	7,334	8,150
Total liabilities	<u>919,273</u>	<u>932,995</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	17,087	13,621
Retained earnings		
Allocated	80,583	81,005
Unallocated	71,513	56,201
Total members' equity	<u>169,183</u>	<u>150,827</u>
Total liabilities and members' equity	<u>\$ 1,088,456</u>	<u>\$ 1,083,822</u>

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

AgCredit Agricultural Credit Association
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Interest Income				
Investment securities	\$ 72	\$ —	\$ 144	\$ —
Loans	14,553	13,286	28,952	26,866
Total interest income	14,625	13,286	29,096	26,866
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	7,025	6,763	13,878	13,947
Other	1	—	1	—
Total interest expense	7,026	6,763	13,879	13,947
Net interest income	7,599	6,523	15,217	12,919
Provision for (reversal of allowance for) loan losses	(695)	381	(387)	956
Net interest income after provision for (reversal of allowance for) loan losses	8,294	6,142	15,604	11,963
Noninterest Income				
Loan fees	252	279	446	634
Fees for financially related services	26	20	81	90
Equity in earnings of other Farm Credit institutions	2,314	1,580	4,019	3,125
Insurance Fund refund	—	—	940	—
Other noninterest income	1	22	43	61
Total noninterest income	2,593	1,901	5,529	3,910
Noninterest Expense				
Salaries and employee benefits	1,774	1,570	3,627	3,247
Occupancy and equipment	155	183	334	359
Insurance Fund premium	2	287	156	569
Other operating expenses	711	784	1,513	1,467
Total noninterest expense	2,642	2,824	5,630	5,642
Income before income taxes	8,245	5,219	15,503	10,231
Provision for income taxes	38	39	77	72
Net income	\$ 8,207	\$ 5,180	\$ 15,426	\$ 10,159

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

AgCredit Agricultural Credit Association
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2008	\$ 11,490	\$ 73,039	\$ 54,823	\$ 139,352
Net income			10,159	10,159
Capital stock/participation certificates issued/(retired), net	251			251
Dividends declared/paid	6		(107)	(101)
Retained earnings retired		(13)		(13)
Patronage distribution adjustment		356	(577)	(221)
Balance at June 30, 2009	\$ 11,747	\$ 73,382	\$ 64,298	\$ 149,427
Balance at December 31, 2009	\$ 13,621	\$ 81,005	\$ 56,201	\$ 150,827
Net income			15,426	15,426
Capital stock/participation certificates issued/(retired), net	3,466			3,466
Dividends declared/paid			(123)	(123)
Retained earnings retired		(17)		(17)
Patronage distribution adjustment		(405)	9	(396)
Balance at June 30, 2010	\$ 17,087	\$ 80,583	\$ 71,513	\$ 169,183

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

Notes to the Consolidated Financial Statements

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

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

The accompanying financial statements include the accounts of Ag Credit Agricultural Credit Association (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2009, are contained in the 2009 Annual Report to Shareholders. These unaudited second quarter 2010 consolidated financial statements should be read in conjunction with the 2009 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the six months ended June 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010.

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2010 the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In addition to the recently issued accounting pronouncements discussed in the 2009 Annual Report to Shareholders, in June 2009, the Financial Accounting Standards Board (FASB) issued guidance "Accounting for Transfers of Financial Assets," which amended previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. This guidance must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting guidance) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance that requires consolidation. The Association evaluated the impact of adoption on its loan participation agreements to ensure that participations would meet the requirements for sales treatment. The impact of adoption on January 1, 2010 was immaterial to the Association's financial condition and results of operations.

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

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

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. The Association does not have any variable interest or controlling interest in a variable entity. Therefore, there was no impact of adoption of the guidance for the Association.

In January 2010, the FASB issued guidance "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more

detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 5).

NOTE 2 – INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held-to-maturity at June 30, 2010 and December 31, 2009 follows:

	June 30, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission related investments	\$ 4,374	\$ 399	\$ (62)	\$ 4,711	6.65%

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission related investments	\$ 4,316	\$ 346	\$ -	\$ 4,662	6.66%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities held-to-maturity at June 30, 2010 follows:

	June 30, 2010		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-0%
After one year through five years	-	-	-
After five years through ten years	58	56	5.94
After ten years	4,316	4,655	6.66
Total	\$ 4,374	\$ 4,711	6.65%

	December 31, 2009		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-0%
After one year through five years	-	-	-
After five years through ten years	-	-	-
After ten years	4,316	4,662	6.66
Total	\$ 4,316	\$ 4,662	6.66%

The Association's mission related investments consist of private placement securities purchased under the Rural America Bond 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. 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 June 30, 2010. The Association had no unrealized losses at December 31, 2009.

	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission related investments	\$ 1,374	\$ (62)	\$ -	\$ -

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 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 Association has not recognized any other-than-temporary impairment as the unrealized losses resulted primarily from non-credit related factors. The Association 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. The Association does not intend to sell these investments and it is not more likely than not that the Association would be required to sell these investments before recovering its costs. All securities continue to perform.

NOTE 3 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the six months ended June 30,	
	2010	2009
Balance at beginning of period	\$ 8,830	\$ 4,316
Provision for loan losses	(387)	956
Charge-offs	(1,728)	-
Recoveries	-	20
Balance at end of period	\$ 6,715	\$ 5,292

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

	<u>2010</u>	<u>2009</u>
Impaired loans with related allowance	\$ 3,273	\$ 4,094
Impaired loans with no related allowance	1,041	2,574
Total impaired loans	<u>4,314</u>	<u>6,668</u>
Allowance on impaired loans	<u>\$ 706</u>	<u>\$ 1,173</u>

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

	<u>2010</u>	<u>2009</u>
Average impaired loans	\$ 5,543	\$ 3,553
Interest income recognized on impaired loans	122	52

NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	<u>2010</u>	<u>2009</u>
Pension	\$ 583	\$ 607
401(k)	145	128
Other postretirement benefits	136	150
Total	<u>\$ 864</u>	<u>\$ 885</u>

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

	Actual YTD Through 6/30/10	Projected Contributions For Remainder of 2010	Projected Total Contributions 2010
Pension	\$ -	\$ 1,253	\$ 1,253
Other postretirement benefits	70	134	204
Total	<u>\$ 70</u>	<u>\$ 1,387</u>	<u>\$ 1,457</u>

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2010.

Further details regarding employee benefit plans are contained in the 2009 Annual Report to Shareholders.

NOTE 5 – FAIR VALUE MEASUREMENT

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

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

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

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association has no Level 1 assets or liabilities measured at fair value on a recurring basis at June 30, 2010.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at June 30, 2010.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3

assets and liabilities also could be instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at June 30, 2010 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Level 3 liabilities at June 30, 2010 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at June 30, 2010 and December 31, 2009 for each of the fair value hierarchy levels:

June 30, 2010				
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 33	\$ 33
Total Liabilities	\$ -	\$ -	\$ 33	\$ 33
December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 13	\$ 13
Total Liabilities	\$ -	\$ -	\$ 13	\$ 13

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2010 and 2009. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first six months ended June 30, 2010 and 2009.

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 13
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	20
Transfers in and/or out of level 3	-
Balance at June 30, 2010	\$ 33

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 54
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(20)
Transfers in and/or out of level 3	-
Balance at June 30, 2009	\$ 34

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

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

June 30, 2010					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 2,371	\$ 2,371	\$ (149)
December 31, 2009					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 4,140	\$ 4,140	\$ (1,801)

NOTE 6 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association’s financial instruments at June 30, 2010 and December 31, 2009.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association’s financial instruments are as follows:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	\$ 2,821	\$ 2,821	\$ 402	\$ 402
Loans, net of allowance	\$1,043,543	\$ 1,061,733	\$ 1,037,354	\$ 1,060,755
Investment securities	\$ 4,374	\$ 4,711	\$ 4,316	\$ 4,662
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 908,963	\$ 917,945	\$ 916,460	\$ 924,901

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

- A. **Cash:** The carrying value is primarily a reasonable estimate of fair value.
- B. **Loans:** Because no active market exists for the Association’s loans, fair value is estimated by discounting the expected future cash flows using the Association’s current interest rates at which similar loans would be made to borrowers with similar credit risk. Discount rates are based on the Bank’s loan rates as well as management estimates.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated to be the carrying amount of the loan less specific reserves.

The carrying value of accrued interest approximates its fair value.

- C. **Investment in AgFirst Farm Credit Bank:** Estimating the fair value of the Association’s investment in the Bank is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 3.64 percent of the issued stock of the Bank as of June 30, 2010 net of any reciprocal investment. As of that date, the Bank’s assets totaled \$30.7 billion and shareholders’ equity totaled \$1.9 billion. The Bank’s earnings were \$206.7 million during the first six months of 2010.
- D. **Investment Securities:** Fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.
- E. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association’s loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association’s interest margin are used to fund operating expenses and capital expenditures.
- F. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

NOTE 7 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through August 6, 2010, which is the date the financial statements were issued.