



2009 Annual Report



FARM CREDIT
OF SOUTHWEST FLORIDA

Lending support to rural America™



FARM CREDIT OF SOUTHWEST FLORIDA, ACA

2009 ANNUAL REPORT

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Management

Jimmy V. Knight	President & Chief Executive Officer
Bryan L. Byrd.....	Executive Vice President and Chief Operating Officer
Ronnie D. Crawford.....	Chief Lending Officer
William F. Federer.....	Chief Relationship Officer
Daniel B. Irby	Chief Financial Officer

Board of Directors

Walter S. Farr	Chairman
J. Mark Wheeler	Vice Chairman
Howard P. “Rowdy” Bateman	Director
John Roy Gough.....	Director
Jerry M. Newlin.....	Director
Lisa Sherman	Director
John F. Smoak, Jr.	Director
E. E. “Bucky” Waldron.....	Director
Martin J. “Marty” Mckenna	Director

Message from the President

Your association experienced another challenging year in 2009. Like many businesses in Florida, we were adversely affected by the state's high rate of unemployment, mounting foreclosures, declining home and land values, and sluggish economy. Although the ag economy generally performed well in 2009, the general economy—and especially that portion of the economy tied to real estate—remained in recession at year-end with few signs of recovery in sight.

As the recession began in 2007, many of the businesses we finance—especially those associated with the real estate market—developed cash-flow problems. When they were not able to meet their obligations, our credit quality declined. Because the real estate market has not improved significantly, our credit quality has not improved during the past year. In fact, at year-end 2009, 84.73% of our loans were classified acceptable & OAEM, as compared to 89.11% the previous year. On the other hand, total nonaccrual loans have decreased from \$14.4 million at the end of 2008, to \$11.8 million at 2009 year-end.

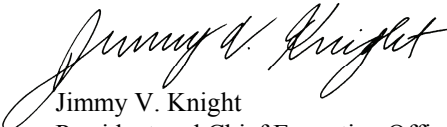
Our staff spent many hours this past year reviewing loans to identify potential problems and working with members in distress. As problems were identified, we took the necessary steps, either charging off all or a portion of the loan or increasing the association's reserves to account for potential losses. By year end, our net charge-offs totaled \$3.8 million, and we had made provisions for loan losses of \$1.6 million. I am glad to report that we were able to absorb those losses and provisions with current-year earnings and did not have to dip into capital to absorb them.

We entered this economic downturn with a solid capital position and, despite the charge-offs and provisions we made in 2009, we still have a strong capital position. In fact, our capital position is even stronger than it was a year ago. At the end of 2009, our permanent capital ratio was 14.43%, up from 12.05% the previous year.

In spite of the innumerable challenges we faced during the year, the association reported an increase in earnings in 2009. Our net income was \$2.9 million, which represents a 39% increase over the previous year's net income of \$2.1 million. Net income is, of course, the source of the patronage refunds we distribute to our borrowers. To help keep our capital position strong, we will not distribute any of our 2009 patronage in cash; instead, we will distribute all of it in nonqualified allocated surplus. We hope to be able to revolve that surplus in cash in later years, when the economy has improved. In the meantime, it will help shore up the association's defenses.

Even as we struggled with credit problems in 2009, we took steps to improve the efficiency of the association's operations. To keep our costs low, we maintained our agreement with AgFirst Farm Credit Bank to provide ancillary services for us, including accounting, reporting and information management. While association management retains the responsibility and accountability for all of these areas, we are able to take advantage of the economies of scale that AgFirst offers. The new arrangement has saved us time and money and, in some cases, resulted in higher quality services than we could normally afford. More importantly, it has allowed us to devote more resources to serving our borrowers, our #1 priority.

The board and I want to assure you that we are still providing credit to the agricultural community that we serve. Unlike many lenders, we have not "turned off the spigot." Our goal—moreover, our mission—is to be a reliable and stable source of credit in good times and bad, and we are meeting our mission every day. We are financing creditworthy farmers, ranchers, agribusinesses and rural homeowners, and we will continue to do so, as we have the last 93 years.


Jimmy V. Knight
President and Chief Executive Officer

March 12, 2010

Report of Management

The accompanying Consolidated Financial Statements and related financial information appearing throughout this annual report have been prepared by management of Farm Credit of Southwest Florida, ACA (Association) 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.

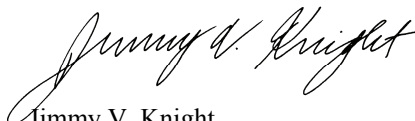
Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association 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 Association 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 Board of Directors.

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

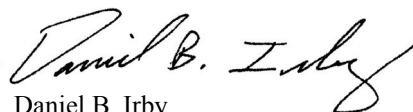
The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2009 annual report of Farm Credit of Southwest Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Walter S. Farr
Chairman of the Board



Jimmy V. Knight
Chief Executive Officer



Daniel B. Irby
Chief Financial Officer

March 12, 2010

Report on Internal Control Over Financial Reporting

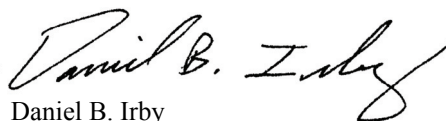
The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal 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, to provide 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 and 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 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 Association 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 Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2009.



Jimmy V. Knight
Chief Executive Officer



Daniel B. Irby
Chief Financial Officer

March 12, 2010

Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	2009	2008	December 31, 2007	2006	2005
Balance Sheet Data					
Cash	\$ —	\$ —	\$ 64	\$ —	\$ 466
Investment securities	47,142	38,517	36,958	32,202	—
Loans	163,251	198,532	258,245	219,599	276,618
Less: allowance for loan losses	2,118	4,293	232	187	183
Net loans	161,133	194,239	258,013	219,412	276,435
Investments in other Farm Credit institutions	16,199	17,174	11,166	12,209	4,638
Other property owned	1,407	178	—	—	—
Other assets	12,987	13,159	13,704	12,050	9,160
Total assets	\$ 238,868	\$ 263,267	\$ 319,905	\$ 275,873	\$ 290,699
Notes payable to AgFirst Farm Credit Bank *	\$ 185,163	\$ 211,647	\$ 260,052	\$ 217,032	\$ 233,259
Accrued interest payable and other liabilities with maturities of less than one year	3,596	4,282	8,284	7,082	5,674
Total liabilities	188,759	215,929	268,336	224,114	238,933
Protected borrower stock	324	329	356	508	622
Capital stock and participation certificates	506	553	581	601	656
Retained earnings					
Allocated	25,392	22,637	26,030	25,779	25,257
Unallocated	24,116	23,984	24,827	24,871	25,231
Accumulated other comprehensive income (loss)	(229)	(165)	(225)	—	—
Total members' equity	50,109	47,338	51,569	51,759	51,766
Total liabilities and members' equity	\$ 238,868	\$ 263,267	\$ 319,905	\$ 275,873	\$ 290,699
Statement of Income Data					
Net interest income	\$ 3,857	\$ 4,395	\$ 6,316	\$ 7,616	\$ 6,402
Provision for (reversal of allowance for) loan losses	1,632	4,183	26	(10)	(123)
Noninterest income (expense), net	722	1,904	2,952	595	622
Net income	\$ 2,947	\$ 2,116	\$ 9,242	\$ 8,221	\$ 7,147
Key Financial Ratios					
Rate of return on average:					
Total assets	1.20%	0.85%	3.25%	2.79%	2.67%
Total members' equity	6.12%	4.34%	18.13%	16.11%	14.28%
Net interest income as a percentage of average earning assets	1.85%	2.03%	2.43%	2.71%	2.49%
Net (chargeoffs) recoveries to average loans	(2.10)%	(0.07)%	0.01%	0.01%	(0.01)%
Total members' equity to total assets	20.98%	17.98%	16.12%	18.76%	17.81%
Debt to members' equity (:1)	3.77	4.56	5.20	4.33	4.62
Allowance for loan losses to loans	1.30%	2.16%	0.09%	0.09%	0.07%
Permanent capital ratio	14.43%	12.05%	15.19%	17.08%	18.07%
Total surplus ratio	14.17%	11.83%	15.13%	16.85%	17.81%
Core surplus ratio	10.85%	10.59%	10.67%	14.27%	12.63%
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ —	\$ 700	\$ 2,996	\$ 2,512	\$ 1,721
Qualified allocated retained earnings	—	—	261	—	—
Nonqualified allocated retained earnings	2,750	1,300	6,049	4,665	3,196

* General financing agreement is renewable on one-year cycle. The next renewal date is December 31, 2010.

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Farm Credit of Southwest Florida, ACA, (Association) for the year ended December 31, 2009 with comparisons to the years ended December 31, 2008 and December 31, 2007. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The 2009 Annual Report to shareholders was prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of 10 counties in Southwest Florida and has offices in Arcadia, Wauchula, and Lake Suzy, Florida. Refer to Note 1, "Organization and Operations," of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. The Association's success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association 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 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, www.farmcreditswfl.com, or by calling 1-800-307-5677, extension 141, or writing Jeremy Christian, Controller, 330 N. Brevard Ave. Arcadia Florida 34266. The Association 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 Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement 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 our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our 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;
- 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
- actions taken by the Federal Reserve System in implementing monetary policy.

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 the Association's business. References to the USDA information in this section refer to the U.S. agricultural market and not the Association.

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, will decrease 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's February 2010

outlook for the farm economy, as a whole, 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. 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 forecasts 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 forecast 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 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, the Association'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, the Association'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.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must 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 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 our 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. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which generally considers portfolio stress testing, loan migration modeling, and relevant historical charge-off experience 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.

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.

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

- *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 most 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, pension and other postretirement benefit obligations, and certain 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

results, which could have material positive or negative effects on the Association'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 expected long-term rate of return on plan assets and 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 our future benefit obligations. The discount rate for 2009 was selected by reference to analysis and yield curves of the plans' actuary and industry norms.

REGIONAL ECONOMIC CONDITIONS

Florida's economy has yet to transition from recession to recovery. Signs have been uneven; however, there have been some positive developments. Early-stage mortgage delinquencies are moderating, initial claims for unemployment insurance are subsiding, and consumer confidence is improving. Also, federal incentives have successfully invigorated home sales and industrial production. A number of hurdles remain, as foreclosure sales are mounting and the unemployment rate is above the national average.

Florida's recovery will be lackluster because of its reliance on new resident migration and its fractured housing market. Migration has been the lifeblood of the Florida economy, as averages of 240,000 residents per year have relocated to the state since the beginning of the decade. However, in 2008/2009 there were little population gains. Falling house prices and wealth nationally have reduced labor mobility and delayed some from retiring. Also, an increasing number of people are leaving the state because of the severe recession. As such it will likely take several years until new residents are once again avidly migrating to Florida.

The federal stimulus will likely deliver its maximum boost this spring, helping the state emerge from recession. Whereas the stimulus is working faster nationally, Florida is last among states in infrastructure projects underway. The lack of infrastructure projects is hurting construction employment, which continues to decline. Nevertheless, the state's large project pipeline bodes well for job creation for 2010 and 2011.

The state's office, industrial and retail real estate markets will continue to deteriorate before improving. All of these respond with a lag to the labor market. Commercial vacancy rates are soaring and rental rates are falling as tenants have stopped renting space or gone bankrupt. While residential housing markets have stabilized somewhat, commercial loan defaults are rising. As such, it will take years for commercial real estate to recover and growth to resume.

The Florida economy is expected to emerge from recession this year as job losses abate and consumer confidence improves. In the interim, the unemployment rate is expected to peak near 13% in 2010 for the state, as compared with anticipated 11% nationally and thus Florida will not recover the jobs lost during the recession until late 2012. In the long run, the state's strong demographic and economic fundamentals will enable for a strong recovery.

Citrus

The Florida citrus industry continued its recovery from the four hurricanes that struck the state in 2004 and 2005. The 2008-09 orange crop was 162.4 million boxes, down modestly from the crop of 170.2 million boxes produced in 2007-08. Even with a smaller crop, the big news of 2008-09 was the substantial decline in grower prices as a result of high juice inventories and reduced demand.

According to the Florida Statistics Service, the estimate for the 2009-2010 Florida round orange crop is 136 million boxes, a decrease of 16% from last season's crop and 20% less than the 2007/08 season. The early mid-season crop, including navels is forecast at 69 million boxes, down 18% from last year and the Valencia crop forecast at 67 million boxes is down 13% from last season's 77.8 million boxes. Grapefruit is forecast at 19.8 million boxes down 1.9 million boxes from the 21.7 million boxes produced in 2008-2009. Freezing weather conditions of mid January 2010 could cause more declines in this year's fruit production.

Long-Run Outlook

Typically when major weather events strike Florida, the stage is set for a period of higher prices. These higher prices stimulate a replanting process and as new trees mature, prices begin to recede. In this cycle, however, three factors have disrupted this process. First is the impact of citrus canker and greening on citrus nursery trees. Citrus canker resulted in nearly two thirds of the nursery stock being destroyed and many nurseries were forced to close. New tree nurseries are now in production, although the supply of new trees is somewhat limited resulting in high prices for nursery trees. These high prices will likely stimulate new investment in tree nurseries, and eventually more new trees will be available.

Another factor is citrus greening. This is a highly destructive disease whose impact is still limited, but continues to spread in the state. Research has not indicated that citrus greening can be controlled and therefore, many growers are uncertain regarding future production prospects. This uncertainty has a negative effect on the willingness of growers to make investments in new tree plantings. Citrus greening is also present in Sao Paulo, Brazil. Competition from sugarcane for land in Sao Paulo and the impact of citrus greening suggests that production there is not likely to expand in the intermediate term.

Collectively, these observations suggest that the orange industry should be entering a period of higher prices even though that trend was delayed this year caused, in part, by macroeconomic events. The rationale for higher grower prices is production is not likely to expand over the next five years. In fact, current production trends for both Florida and Sao Paulo, Brazil are on a downward trajectory.

Industry viability is a question even as price increases. Growers will need sustainable price increases to sufficiently cover increased cost of production stemming not only from increased input costs, but also the increased costs of dealing with citrus greening. Citrus greenings also results in higher tree mortality and consequently lower per acre yields. For many growers the breakeven on-tree price for processed oranges has increased by more than one dollar per box as a result in higher input costs and citrus greening.

The long-run outlook for grapefruit is better than it has been for several seasons. There are signs that the demand for grapefruit juice is beginning to expand. Florida remains the main supplier of fresh grapefruit to the world market. The primary negative factor facing grapefruit is disease, both citrus greening and citrus canker.

The end of the rural land boom in Florida means that selling citrus groves for development has abated. Labor costs and diseases will continue to be an issue of some concern.

Cattle

Florida has primarily cow-calf operators, which is a ranch where cows are raised and bred mainly to produce calves destined for the beef market. The cows produce a calf crop each year, and the operation keeps some heifer calves from each crop for breeding herd replacements. The rest are sold between the ages of 6 to 12 months along with non-productive cows and bulls. Such calves are often sold out west to producers who raise them as feeder cattle.

Beef Supply Situation

U.S. cattle farmers are continuing to decrease their inventory of cattle and calves. The contributing factors responsible for causing cattle liquidation to occur during the last two years are lower market prices for feeder cattle (weak beef demand which was caused by the recession), high production costs (feed, fertilizer, fuel, labor, land rents, etc.), large levels of competing meats, dry weather in some states causing poor forage conditions, and alternative uses of land (pasture acreage moving into grain production, conservation programs, or non-farm uses). Thus, given the current financial difficulties, cattle farmers will likely continue to liquidate cattle numbers until profitability can be achieved.

In the mid-year July 1, 2009 Cattle Report, farmers told USDA they had about 450,000 fewer beef cows that had calved (-1.38%) than a year ago and beef cow replacements were down 100,000 head (-2.17%) from a year ago at 4.5 million head. A decrease in beef cow replacements and beef cows that have calved during 2009 suggests that herd liquidation will continue in 2010.

Competing Meats

U.S. meat production in 2010 is expected to show mixed results. Beef and pork production estimates are expected to show decreases next year and broilers are expected to increase production. Beef production in 2010 is expected to decrease about 480 million pounds (-1.9%). Pork production is expected to decrease about 439 million pounds (-1.9%) during 2010 compared with 2009, while broiler production is expected to increase about 640 million pounds (+1.8%). Changes in production levels or export levels of pork and broilers could have a significant effect on U.S. beef prices.

Beef Price Outlook

The 2010 cattle market will continue to operate with a great deal of uncertainty, but overall prices should be slightly better than 2009 on average as the economy and beef demand strengthens. As should be expected, the market has the potential for some big price swings.

Sugar

The United States is the largest consumer of sweeteners, including sugar and high fructose corn syrup, and is one of the largest global importers. The U.S. ranks among the top sugar producers, and is one of the few countries with significant production of both sugar beets and sugarcane. Since the mid-1990s, sugarcane has accounted for about 45% of the total sugar produced domestically, and sugar beets for the remaining 55%. U.S. sugar production expanded from the early 1980s to the 2000s. The production increases are due to a substantial investment in new processing equipment, the adoption of new technologies, the use of improved crop varieties, and acreage expansion.

Sugarcane, one of the essential raw material sources of manufactured sugar, is a tall perennial grass grown in tropical and semitropical climates. After the planting of cane stalk cuttings, the plant matures in 1-2 years. Two to four crops are harvested from the original plantings, unless the plants are impaired or destroyed by weather, disease, or other causes. Once harvested, sugarcane must be processed quickly before its sucrose deteriorates.

Florida's sugarcane production has expanded significantly since the United States ceased importing sugar from Cuba in 1960. Florida is the largest cane-producing region in the United States. Most of the sugarcane is produced in organic soils along the southern and southeastern shore of Lake Okeechobee in Southern Florida, where the growing season is long and winters are generally warm.

The USDA's production estimates and projections are based primarily on information provided by beet sugar processors and cane sugar millers. FY 2010 the sugar production forecast is at 7.95 million short tons, raw value (STRV) which is an increase of 5% from prior year and attributable to the beet segment. Beet sugar is forecast at 4.7 million STRV for 2010 (an increase of 10% of 2009 level). Farmers reduced plantings in prior year and converted to grains due to higher returns for corn, wheat, and soybeans. Now with stronger sugar prices, acreage is being transferred back to beet sugar. The cane sugar forecast is at 3.325 million STRV (or roughly the same as 2009 production of 3.321 million STRV).

Prices for sugar were strong in 2009 with the tight supplies and higher consumption. Many companies that were utilizing high fructose corn syrup as a sweetener in food and beverage production have now switched to refined sugar (due to the run-up in price of corn during 2008).

The raw price for cane was recently 26.25 cents/lb, which is well above 2008 level of 23.5 cents/lb. Prices should remain strong for 2010 as current year's inventories are low compared to historical average and USDA has recently endorsed continuation of the sugar tariff quota, which will benefit domestic producers.

Floriculture/Nursery

Floriculture includes annual and perennial flowering plants, cut flowers, and cut cultivated greens and foliage plants. Nursery crops include woody ornamental trees and shrubs, sod and unfinished plant products.

The green industry has become a major sector within U.S. agriculture, is of key importance to farmers, rural communities, and consumers, and has been a bright sector of U.S. agriculture, but larger imports of cut flowers and nursery stock have raised competitive pressure on domestic producers. Production and marketing of landscape crops have provided an alternative for some farmers who have produced traditional agricultural crops such as corn, soybeans, and vegetables. Producers of all sizes are focusing on marketing and carefully looking at innovative branding campaigns to boost their sales. Smaller growers are looking for niches and value added products and many of them are retailing directly to consumers. Opportunity still exists but producers must either provide innovative and distinct products or seek to be a low cost producer.

In SW Florida, the nursery market expanded and was highly lucrative during 2004 to 2006 by meeting demand of the construction boom in new homes and the need for replacement landscaping was required after the 2004 hurricane season. Since then however, with the housing market decline and a weak demand in new construction, there has been a significantly lower demand for Floriculture and Nursery. Also, input costs, such as fertilizer, have risen which has put pressure on margins.

The general outlook for the industry for 2010 has the market stabilizing at lower sales levels and reduced prices. Although there may be a slight upswing in volume sales, and prices are expected to remain flat due to surplus of inventory.

Florida remains a leading producer in the nursery & landscaping industry ranked second only to California in the United States. In the long-term, population growth expected in Southwest Florida over the next decade will serve to benefit area producers; however, short-term conditions will prove difficult with the failure of inefficient operations.

Dairy

The United States produces about 180 billion lbs. of milk annually. Nationally, about 1/3 of the milk is for fluid consumption, 1/3 for cheese, and the remaining 1/3 for butter and milk powder. The price dairy farmers receive varies by the utilization of their product. Class I fluid milk is bottled milk that is sold to drink. Class II milk is used for soft products such as Ice Cream and Cottage Cheese. Class III milk is used to make cheese. Class IV milk is used for Butter and Dry Milk Powder. Due to the demographics of Florida (demand being greater than local producers can supply) more than 80% of the state's milk is sold for fluid consumption (Class I) which yields the best prices for farmers and processors. As such, all operators have suffered in 2009 from dismal market prices.

The dairy industry was one of the agricultural industries significantly impacted by the global economic crisis, which caused international shifts in supply and demand. Consequently, the average farm milk price in 2009 was at historic lows while the cost of production remained relatively high. Prices have finally begun to increase recently in September with the

combination of reduced production per cow (as is common in the fall months) and also from herd liquidation. With school back in session more fluid milk is demanded and therefore not available for manufacturing, which reduces the amount of export product available. Also, the U.S. dollar has been rising, which makes exporting less competitive. Fluid milk, butter, cheese, and nonfat dry milk have all seen a boost in price after being stagnant all year and whey prices have been steadily advancing. While these recent events are positive and 2010 prices forecast to be much better than 2009, inventories of cheese and NFDM remain high, especially world powder stocks. Ultimately these will be a drag on the market and it is unlikely prices will see their 2007-08 levels until stocks shrink.

Vegetable / Melon

Vegetables are grown in Florida on ~300,000 acres, for total annual value of \$1.2 billion. While the major vegetable commodities are tomato, bell pepper, strawberry, potato, green bean, and watermelon, over 40 vegetable crops are produced in the state. The main challenges facing the industry are global competition, labor, and water issues. Field production in Mexico and Central American countries and greenhouse production in Canada and European countries now also target the winter market historically open for Florida produce. In this context, vegetable growers constantly strive to improve their cultural practices in order to remain competitive and maintain profitability. As a response to these needs, several statewide research/extension programs focus on vegetable variety development and evaluation, updates on fertilization, irrigation, weed, and pest control recommendations, and assessment of the environmental impact of vegetable production on ground water quality. Among these programs, work on water and nutrient management includes irrigation scheduling methods, field-testing of possible best management practices, and the development of controlled-release fertilizer programs for vegetable production.

The outlook for fresh vegetables indicates reduced acreage and supplies. At the same time, demand is expected to continue to be relatively soft as consumers remain conservative with in-home dining and eating premium products such as hothouse and organic vegetables. Although the price outlook is uncertain in any specific area (given weather and local market conditions), it favors better prices compared with the modest levels experienced a year earlier. Long run outlook is positive for fruits and vegetables and with steady growth pace for demand as a result of healthier eating habits and demographic trends.

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 through numerous product types.

Business Segments	2009		December 31, 2008		2007	
	<i>(dollars in thousands)</i>					
Capital Markets Lending	\$ 103,198	63.20%	\$ 132,312	66.64%	\$ 130,333	50.47%
Commercial Lending	41,458	25.40	45,973	23.16	105,109	40.70
Rural America Bonds	6,897	4.23	10,567	5.32	7,037	2.72
Country Mortgages and Retail Lending	8,759	5.37	9,680	4.88	15,766	6.11
Special Asset Management	2,939	1.80	-	-	-	-
Total Association	\$ 163,251	100.00%	\$ 198,532	100.00%	\$ 258,245	100.00%

The gross loan volume of the Association as of December 31, 2009, was \$163,251, a decrease of \$35,281 or 17.77 percent as compared to \$198,532 at December 31, 2008, and a decrease of \$94,994 or 36.78 percent as compared to \$258,245 at December 31, 2007. Net loans outstanding (gross loans net of the allowance for loan losses) on December 31, 2009, were \$161,133 as compared to \$194,239 at December 31, 2008 and \$258,013 at December 31, 2007. Net loans accounted for 67.46 percent of total assets on December 31, 2009 as compared to 73.78 percent of total assets at December 31, 2008 and 80.65 percent of total assets at December 31, 2007. The Association's decrease in gross loan volume during 2008 is largely attributed to the sale of loan assets through the AgFirst Capitalization Participation Pool (CPP) and the general weakening of the economy. The contraction during 2009 is the continued weakening of the economy both nationally and regionally as principal pay downs from existing borrowers have exceeded new loan growth.

The Association's total servicing loan volume was \$1.127 billion at December 31, 2009 as compared to \$1.264 billion for December 31, 2008. Total servicing loan volume is equal to the Association's loan volume outstanding plus loans sold and available commitments. The total servicing loan volume represents the total amount of loans that are serviced by the Association.

The diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	2009		December 31, 2008		2007	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 71,428	43.75%	\$ 99,315	50.03%	\$ 143,035	53.92%
Production and intermediate-term	45,416	27.82	44,001	22.16	75,021	30.51
Processing and marketing	29,886	18.31	36,771	18.52	24,632	9.54
Farm-related business	7,119	4.36	12,020	6.05	12,044	4.66
Loans to cooperatives	5,493	3.36	1,642	0.83	-	-
Rural home	2,801	1.72	1,863	0.94	1,686	0.65
Communication	1,108	0.68	1,120	0.56	-	-
Energy	-	-	1,800	0.91	1,827	0.71
Total	\$ 163,251	100.00%	\$ 198,532	100.00%	\$ 258,245	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The geographic distribution of the loans by state for the past three years is as follows:

State	December 31,		
	2009	2008	2007
Florida	63.75%	61.45%	75.90%
Georgia	7.15	6.77	2.82
South Carolina	5.77	5.71	5.60
California	3.52	2.94	2.25
Minnesota	2.49	3.55	1.78
New York	2.47	2.19	1.82
North Carolina	2.34	2.56	1.68
Virginia	1.56	1.36	1.15
Washington	1.23	-	-
Texas	1.15	1.32	1.49
Ohio	0.58	0.36	0.87
Other	7.99	11.79	4.62
	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are Citrus, Cattle, and Non-Farm, which constitute over 44 percent of the entire portfolio. The Non-Farm commodities are primarily Rural America Bonds approved under the Farm Credit Administration Bond Pilot Program (see *Mission-Related Investments* section below) and lessors of agriculture property.

Commodity Type	December 31,					
	2009		2008		2007	
	<i>(dollars in thousands)</i>					
Citrus	\$ 37,381	23%	\$ 52,628	27%	\$ 84,075	33%
Other	19,105	12	26,822	14	32,154	13
Cattle	18,259	11	12,912	6	18,522	7
Non-Farm	15,921	10	22,893	12	9,510	4
Horticulture	14,410	9	16,793	8	41,894	16
Timber	11,574	7	12,195	6	13,494	5
Dairy Farms	10,432	7	4,621	2	8,820	3
Fuel Manufacturing	8,763	5	7,787	4	3,779	1
Farm Services	8,478	5	14,219	7	11,572	4
Other Field Crops	7,180	4	5,573	3	5,219	2
Saw & Paper Mill	6,360	4	10,387	5	5,224	2
Sugar Cane	3,786	2	4,242	2	5,096	2
Vegetables and Melons	1,602	1	7,460	4	6,786	3
General Farm	–	–	–	–	6,620	3
Misc. Business/ Credit Institutions	–	–	–	–	5,480	2
Total	\$ 163,251	100%	\$ 198,532	100%	\$ 258,245	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration on Citrus producers. Although a large percentage of the loan portfolio is concentrated in this enterprise, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. The portfolio also has some concentration in large loans in terms of net risk exposure. The agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

For the past few years, the Association has experienced a shift in loan assets. The long-term volume trend has been downward while the short and intermediate-term loan volume trend is upward. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and rapidly declines in the fall months as commodities are marketed and proceeds are applied to repay operating loans.

During 2009, the Association decreased activity in the buying of loan participations and in the selling of loan participations within the System. The purchasing and selling of credits provides a means for the Association to diversify credit concentration risk and realize non-patronage sourced interest and fee income, which is intended to strengthen our capital position.

Loan Participations	2009	2008	2007
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 361,682	\$ 418,051	\$ 404,621
Participations Purchased			
– Non-FCS Institutions	–	–	–
Participations Sold	<u>(580,826)</u>	<u>(737,483)</u>	<u>(745,989)</u>
Total	\$ (219,144)	\$ (319,432)	\$ (341,368)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the year ended December 31, 2009.

The Association sells qualified long-term mortgage loans into the secondary market. For the year ended December 31, 2009, the Association originated loans for resale totaling \$1,707, which were sold into the secondary market. The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2009, the Association had loans amounting to \$3,607 which were 100 percent guaranteed by Farmer Mac.

MISSION-RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved a Rural America Bonds pilot program under the mission-related investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the associations to make investments in Rural America Bonds under a three-year pilot period. The FCA approved a continuation of the program at October 31, 2008 for an as yet undetermined time period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the instrument. As of December 31, 2009, the Association had \$16,825 in Rural America Bonds, of which \$6,897 were classified as Loans and \$9,928 classified as Investments on the Consolidated Balance Sheets. As of December 31, 2008, the Association had \$13,956 in Rural America Bonds, of which \$10,566 were classified as Loans and \$3,389 classified as Investments on the Consolidated Balance Sheets. In 2009, the Association reclassified two mission-related

investments purchased in 2008, which totaled \$3,600, from loans to investments. The reclassification better reflects the nature of these financial instruments and provides for consistent presentation across the District.

ASSET-BACKED INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is also authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association’s non mission-related investments, which are classified as being held-to-maturity, consist of asset-backed securities (ABS). The ABSs amounted to \$37,214 at December 31, 2009 and \$35,128 at December 31, 2008 and \$35,958 at December 31, 2007. These ABSs are rated AAA, as their principal, which amounted to \$34,977 at December 31, 2009, is guaranteed by the full faith and credit of the United States government.

In view of the recent economic conditions and volatility related to these types of securities, the Association is actively monitoring the creditworthiness of these securities. These securities are supported by various forms of credit enhancements including insurance guarantees from AAA rated insurers, over-collateralization and favorable priority of payments. Based on our evaluations, we believe these securities do not pose a significant risk of loss given the credit enhancements and relatively short weighted average lives. However, in the event a security is downgraded, we may be required by our regulator to dispose of the security.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

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

and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than \$250,000. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit 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 loans including accrued interest at December 31.

Credit Quality	2009	2008	2007
Acceptable & OAEM	84.73%	89.11%	99.61%
Substandard	15.26	10.47	0.39
Doubtful	0.01	0.42	–
Loss	–	–	–
Total	100.00%	100.00%	100.00%

The Association’s credit quality continues to be negatively impacted by the continued weakening of the national and regional economy.

Nonperforming Assets

The Association’s loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

High-risk Assets	December 31,		
	2009	2008	2007
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 11,773	\$ 14,437	\$ 995
Restructured loans	–	–	–
Accruing loans 90 days past due	105	–	–
Total high-risk loans	11,878	14,437	995
Other property owned	1,407	178	–
Total high-risk assets	\$ 13,285	\$ 14,615	\$ 995
Ratios			
Nonaccrual loans to total loans	7.21%	7.27%	0.39%
High-risk assets to total assets	5.56%	5.55%	0.31%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased \$2.7 million in 2009 as a result of charging off loan principal deemed uncollectible and through the foreclosure and collection process of liquidating nonperforming loans and acquiring property to protect principal.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The decrease in the allowance for loan losses in 2009 was primarily due to significant charge offs on loan assets considered uncollectible.

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

	Year Ended December 31,		
	2009	2008	2007
Balance at beginning of year	\$ 4,293	\$ 232	\$ 187
Charge-offs:			
Real estate mortgage	(3,111)	(94)	—
Agribusiness	(579)	—	—
Production and intermediate term	(100)	(25)	—
Rural residential real estate	(69)	(19)	—
Total charge-offs	(3,859)	(138)	—
Recoveries:			
Real estate mortgage	33	16	17
Agribusiness	19	—	—
Production and intermediate term	—	—	2
Total recoveries	52	16	19
Net (charge-offs) recoveries	(3,807)	(122)	19
Provision for (reversal of allowance for) loan losses	1,632	4,183	26
Balance at end of year	\$ 2,118	\$ 4,293	\$ 232
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(2.098)%	(0.067)%	0.01%

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31,		
	2009	2008	2007
	<i>(dollars in thousands)</i>		
Agribusiness	\$ 977	\$ 972	\$ 15
Real estate mortgage	964	2,958	197
Production and intermediate-term	108	327	20
Rural residential real estate	69	36	—
Total allowance for loan losses	\$ 2,118	\$ 4,293	\$ 232

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

Allowance for Loan Losses as a Percentage of:	December 31,		
	2009	2008	2007
Total loans	1.30%	2.16%	0.09%
Nonperforming loans	17.83%	29.74%	23.30%
Nonaccrual loans	17.99%	29.74%	23.30%

Please refer to Note 4, "Loans and Allowance for Loan Losses," of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was \$3.9 million, \$4.4 million and \$6.3 million in 2009, 2008 and 2007, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is a principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. Net interest income decreased by \$0.5 million or 12.24 percent in 2009 compared to 2008. The primary reason for the decrease in net interest income is attributed to the 17.77% decrease in gross loan volume and high levels of nonaccrual loan assets.

The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:	Nonaccrual			
	Volume*	Rate	Income	Total
	<i>(dollars in thousands)</i>			
12/31/09 - 12/31/08				
Interest income	\$ (443)	\$ (3,425)	\$ 157	\$ (3,711)
Interest expense	3	(3,176)	—	(3,173)
Change in net interest income	\$ (446)	\$ (249)	\$ 157	\$ (538)
12/31/08 - 12/31/07				
Interest income	\$ (3,358)	\$ (4,291)	\$ (86)	\$ (7,735)
Interest expense	(1,966)	(3,848)	—	(5,814)
Change in net interest income	\$ (1,392)	\$ (443)	\$ (86)	\$ (1,921)

* Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.

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,			Percentage Increase/(Decrease)	
	2009	2008	2007	2009/ 2008	2008/ 2007
	<i>(dollars in thousands)</i>				
Loan fees	\$ 621	\$ 702	\$ 612	(11.54)%	14.71%
Fees for financially related services	208	112	–	85.71	–
Patronage refund from other Farm Credit institutions	6,958	7,008	8,434	(0.71)	(16.91)
Other noninterest income	(160)	4	249	(4,000.00)	(98.39)
Total noninterest income	\$ 7,627	\$ 7,826	\$ 9,295	(2.54)	(15.80)%

The decrease of \$50, or 0.71 percent, in patronage refunds is attributed to volume contraction in loan assets sold to Farm Credit Institutions, less patronage distributions received from Farm Credit Associations on loans purchased from the Association, and offset by the special patronage distribution from AgFirst Farm Credit Bank paid to all associations in the District. The ACA receives patronage from Farm Credit Cooperative entities who pay patronage on loans purchased from the Association.

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,			Percentage Increase/(Decrease)	
	2009	2008	2007	2009/ 2008	2008/ 2007
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 4,566	\$ 3,660	\$ 3,930	24.75%	(6.87)%
Occupancy and equipment	372	398	418	(6.53)	(4.78)
Insurance Fund premiums	318	268	340	18.66	(21.18)
Other operating expenses	1,576	1,595	1,731	(1.19)	(7.86)
Total noninterest expense	\$ 6,832	\$ 5,921	\$ 6,419	15.39%	(7.76)%

Noninterest expense increased \$911 or 15.39 percent for the year ended December 31, 2009, as compared to the same period of 2008 and increased \$413 or 6.43 percent compared to December 31, 2007.

Salaries and employee benefits increased in 2009, as compared with 2008, primarily due to increased pension expense from a decrease in the expected return on plan assets and an increase in the amount of actuarial losses amortized for 2009 for the districtwide plan in which the Association participates.

Insurance Fund premiums increased 18.66 percent for the twelve months ended December 31, 2009, compared to the same period of 2008. This increase was due to higher average of nonaccrual loan volume throughout the course of 2009 compared to the average volume in 2008.

Income Taxes

The Association recorded a provision for income taxes of \$73 for the year ended December 31, 2009, as compared to a provision of \$1 for 2008 and a benefit of \$76 for 2007. Refer to Note 2, "Summary of Significant Accounting Policies, Income

Taxes," of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

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	1.20%	0.85%	3.25%
Return on average members' equity	6.12%	4.34%	18.13%
Net interest income as a percentage of average earning assets	1.85%	2.03%	2.43%
Net (charge-offs) recoveries to average loans	(2.098)%	(0.067)%	0.01%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the general economy and to a certain extent the agricultural economy along with the real estate market must rebound and show improvement and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES*Liquidity and Funding*

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. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in the Farmer Mac, investments, and other secondary market programs provides

additional liquidity. Sufficient liquid funds have been available to meet all financial obligations.

Total notes payable to the Bank at December 31, 2009, was \$185,163 as compared to \$211,647 at December 31, 2008 and \$260,052 at December 31, 2007. The decrease of 12.51 percent compared to December 31, 2008 was attributable to the decreased loan growth of the Association from the general weakening of the economy. The average volume of outstanding notes payable to the Bank was \$194,710, \$194,645 and \$226,965 for the years ended December 31, 2009, 2008, and 2007 respectively. Refer to Note 8, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

The Association had no lines of credit from third party financial institutions as of December 31, 2009.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank and the Bank's ability to access capital of the Association is discussed in Note 5, "Investment in AgFirst Farm Credit Bank" and Note 8, "Notes Payable to AgFirst Farm Credit Bank" of the Notes to the Consolidated Financial Statements included in this Annual Report.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding Sources" section of this Management's Discussion and Analysis and in Note 8, "Notes Payable to AgFirst Farm Credit Bank" included in this Annual Report.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors (Board) establishes, adopts, and maintains a formal written capital adequacy plan 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. There were no material changes to the capital plan for 2009 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2009, increased 5.85 percent to \$50,109 from the December 31, 2008 total of \$47,338. At December 31, 2008, total members' equity decreased 8.20 percent from the December 31, 2007 total of \$51,569. The increase for 2009 was a result of positive earnings with no retirement of equities or cash patronage as the Board deemed necessary for prudent capital management. The decrease in 2008 from 2007 was a result of distributing allocated surplus back to members.

Total capital stock and participation certificates were \$830 on December 31, 2009, compared to \$882 on December 31, 2008 and \$937 on December 31, 2007. The decrease was attributed to the protected stock and participation certificates in loans liquidated in the normal course of business, retirement of excess stock through revolvment.

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 mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2009	2008	2007	Regulatory Minimum
Permanent capital ratio	14.43%	12.05%	15.19%	7.00%
Total surplus ratio	14.17%	11.83%	15.13%	7.00%
Core surplus ratio	10.85%	10.59%	10.67%	3.50%

The increase in the Association's permanent capital, total surplus, and core surplus for December 31, 2009 was primarily attributed to a reduced risk-adjusted asset base from continued contraction in the Association's gross loan assets. The decrease for December 31, 2008 was attributed to decreased earnings as a result of increased provisions for loan losses related to declining credit quality. 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.

See Note 9, "Members' Equity," of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association’s Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association’s Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 9, “Members’ Equity,” of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of \$2,750 in 2009, \$2,000 in 2008, and \$9,306 in 2007.

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

The Association’s mission is to provide financial services to agriculture and the rural community, which includes providing credit to young*, beginning** and small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share 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 have access to a stable source of credit.

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2009	
	Number of Loans	Amount of Loans
Young	67	\$9,870
Beginning	191	24,763
Small	269	16,446

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2007 USDA Ag census data has been used as a benchmark to measure penetration of the Association’s marketing efforts. The census data indicated that within the Association’s chartered territory (counties) 4.2% percent were Young, 36.9 percent were Beginning, and 89.0 percent were Small. Comparatively, as of December 31, 2009, the Association’s YBS portfolio contained 22 percent Young, 6.2 percent Beginning, and 3.4 percent Small farmers of the ACA’s census data demographic.

The Association focuses on education and financial support in helping YBS farmers finance their operations. Educational programs include seminars, speaking opportunities and training sessions, which are conducted throughout the year. These educational opportunities are both in-house, in the form of events held by the Association, and external, in which case, the Association provides a speaker or provides educational materials. The Association website, www.farmcreditswfl.com, includes an

entire section of information and resources for YBS visitors to the site. Educational programs also include those activities in which the Association participates in local events as a sponsor (such as 4-H and FFA fairs) or as an exhibitor (such as industry or trade shows).

The focus on financial support addresses the specific credit programs and partnerships that the Association has developed to help small farmers, young farmers, and farmers just starting out. It comprises programs such as those offered by the Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers. The Association is a “preferred lender,” the highest status designated by FSA.

The Association is also a Guaranteed Participating Lender for the Small Business Administration (SBA), which offers lending programs specifically for small borrowers. Additionally, the Association offers flexible financing options in-house for qualifying borrowers.

A senior executive oversees the YBS program and coordinates the efforts of other staff members. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the Board of Directors on a quarterly basis.

The Association is committed to the future success of young, beginning and small farmers.

* *Young farmers* are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** *Beginning farmers* are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** *Small farmers* are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than \$250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

For the twelve months ended December 31, 2009, the FCA took no enforcement action against the Association.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2009, the Association adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures (see Note 14), primarily regarding other property owned, but does not have an impact on the Association’s financial condition or results of operations.

In April 2009, the Financial Accounting Standards Board (FASB) issued guidance, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.” The guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for the fair value

measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. The guidance indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The Association adopted this guidance effective June 30, 2009 (see Note 3).

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

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

For held-to-maturity securities, the portion of the other-than-temporary impairment not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities are expanded and will now be required quarterly, as well as annually (see Note 3).

The Association adopted this guidance effective June 30, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. There was no initial adjustment to apply this guidance for the Association since no other-than-temporary impairment was previously recognized by the Association.

In April 2009, the FASB issued guidance, "Interim Disclosures about Fair Value of Financial Instruments." This guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The Association adopted this guidance effective June 30, 2009 (see Note 15).

In May 2009, the FASB issued guidance, "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be included in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not included in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was adopted by the Association effective June 30, 2009 (see Note 17).

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

Disclosure Required by Farm Credit Administration Regulations

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 of 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.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Florida:

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
330 N. Brevard Avenue Arcadia	Administrative Offices	Owned
1311 Highway 17 N. Wauchula	Branch	Owned
340 N. Brevard Avenue Arcadia	Operations	Owned
12415 SW Sheri Avenue, Suite A Lake Suzy	Country Mortgages	Leased

The Lake Suzy office is on a 3-year renewable contract lease term through April 2012.

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 13 of the Consolidated Financial Statements, "Commitments and Contingencies," included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 9 of the Consolidated Financial Statements, "Members' Equity," included in this Annual Report.

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 and 12 of the Consolidated Financial Statements included in this Annual Report.

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 and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years:

<u>Senior Officer</u>	<u>Position, Prior Experience, and Other Business Interests</u>
Jimmy V. Knight	<i>President & Chief Executive Officer</i> since January 1997.
Bryan L. Byrd	<i>Executive Vice President & Chief Operating Officer</i> since July 2002.
Daniel B. Irby	<i>Senior Vice President & Chief Financial Officer</i> since May 2005. His previous experience was a tax and financial accountant, providing consulting services to clients of CPA firms.
Ronnie D. Crawford	<i>Senior Vice President & Chief Lending Officer</i> since October 2006. He has been with the ACA since 1985 and has held various positions including Branch Manager, Internal Reviewer, Litigation Specialist, Credit Administrator, and Risk Policy Manager until promoted to Chief Lending Officer in October 2006.
William F. Federer	<i>Senior Vice President & Chief Relationship Officer</i> since 2007. He has been with the ACA for more than 10 years and has held various positions including Sr. Agricultural -Commercial Loan Officer, and Lending Coach.

The total amount of compensation earned by the CEO and the highest paid 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		Deferred Comp.	Perq./ Other*	Total
		Salary	Bonus			
Jimmy V. Knight	2009	\$313,247	–	–	\$20,345	\$333,592
Jimmy V. Knight	2008	\$305,012	–	–	\$20,257	\$325,269
Jimmy V. Knight	2007	\$265,010	\$ 85,982	–	\$18,050	\$369,042
6	2009	\$703,653	–	–	\$28,976	\$732,630
5	2008	\$588,904	–	–	\$31,792	\$620,696
5	2007	\$558,770	\$180,111	–	\$25,566	\$764,447

* Primarily comprised of company contributions to 401(k) plan (see Note 11 of the Consolidated Financial Statements, "Employee Benefit Plans," included in this Annual Report), group life insurance premiums, and Association-provided automobile.

An Employee Profit Sharing Plan and Loan Sales Performance Plan for incentive compensation was not established or adopted by the Board of Directors for fiscal year 2009.

Loan Officers are compensated for loans made that exceed specific Business Plan goals approved by the Board of Directors. Both plan years run from November 1 to October 31 and distribution for both plans is made in the last quarter of the year.

Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association 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.

NONQUALIFIED PLANS

Defined Benefit-Type

The Association sponsors a non-qualified defined benefit supplemental executive retirement plan. The purpose of the non-qualified plan is to provide benefits that supplement the qualified defined benefit plan in which the Association's employees participate. For eligible key employees, compensation in excess of the 401(a)(17) limit and benefits in excess of the 415(b) limit in the qualified defined benefit plan will be made up through the non-qualified plan. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

Defined Contribution-Type

The Association sponsors a non-qualified supplemental deferred compensation plan. The purpose of the non-qualified plan is to provide supplemental deferred compensation options to eligible key employees. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, total cash compensation paid for days served at Board Meetings and incidentals:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2009
Walter S. Farr, <i>Chairman</i>	1991	2010	\$ 11,400
J. Mark Wheeler, <i>Vice Chairman</i>	1999	2011	9,200
Howard P. Bateman	2004	2010	9,400
John Roy Gough	1992	2012	9,400
Jerry M. Newlin	2007	2011	9,100
John F. Smoak, Jr.	1981	2012	9,200
Martin J. "Marty" McKenna,	2009	2012	5,700
E.E. "Bucky" Waldron, <i>Outside Director</i>	2002	2011	9,400
Lisa Sherman, <i>Outside Director</i>	2008	2011	8,983
John R. Alexander, <i>Retired Vice Chairman</i>	1992	Retired April 2009	3,800
			<u>\$ 85,583</u>

The following represents certain information regarding the directors of the Association and their principal occupation and employment for the past five years:

Walter S. Farr, Chairman, is a retired Certified Public Accountant who has interests in citrus and beef cattle. He serves as a Trustee and Officer of the Matred Carlton Olliff Foundation, a charitable organization.

J. Mark Wheeler, Vice Chairman, is chief financial officer of Wheeler Farms, inc., which grows citrus in Brevard, Desoto, Glades and Polk Counties in Florida. He serves on the Boards of AgFirst Farm Credit Bank, 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.

Howard P. "Rowdy" Bateman, manages a citrus and cattle operation for Bright Hour Ranch in Desoto County. He has personal interests in a family cattle operation, as well as his own personal cattle operation. Mr. Bateman currently serves on the Peace River Valley Citrus Growers Association Board.

John Roy Gough is an agri-chemical salesman also involved in citrus and cattle ranching.

Jerry M. Newlin, is Vice President of citrus production and harvesting for Orange-Co LP. He serves as a member of Florida Citrus Production Managers Association and is a Board member of Florida Citrus Production Research Advisory Council (Research Box Tax).

John F. Smoak, Jr. is self-employed through Smoak Groves, Inc., a privately owned agri-business corporation.

Martin J. "Marty" McKenna is self-employed through McKenna & Associates Citrus, Inc. a privately owned citrus and harvesting operation business. He also serves on Florida Citrus Mutual, a statewide citrus growers' organization and the Florida Citrus Research & Development foundations, which is involved in citrus research. Mr. McKenna is currently serving a three year term from 2009-2012.

E.E. "Bucky" Waldron, Outside Director, is an attorney in a private civil practice in Desoto County.

Lisa Sherman, Outside Director, is a Certified Public Accountant who has an interest in beef cattle.

Subject to approval by the board, the Association may allow directors honoraria of \$400 for attendance at meetings, committee meetings, or special assignments and \$1,250 per quarter for incidental services. Chairman of the Board receives \$1,500 per quarter for incidental services, \$500 for attendance of meetings or special assignments. Directors who serve as Chairman of committees are compensated \$500 for attendance of these meetings. Total compensation paid to directors as a group was \$117,333. No director received more than \$5,000 in non-cash compensation during the year.

The following chart details the number of meetings, other activities, current committee assignments, and additional compensation paid for other activities for each director:

Name of Director	Days Served		Committee Assignments	Comp. Paid for other Activities
	Regular Board Meetings	Other Official Activities		
Walter S. Farr, <i>Chairman</i>	12	16	Audit, Primary Representative of the AgFirst Nominating Committee	\$ 6,700
J. Mark Wheeler, <i>Vice Chairman</i>	11	9	Chairman-Audit and Governance, AgFirst Employee Benefits committee, AgFirst Board of Director	2,250
Howard P. Bateman	12	14	Audit, Political Communication Advocate (CAP), District Advisory Committee (DAC)	4,900
John Roy Gough	12	7	Compensation	1,000
Jerry M. Newlin	10	8	Chairman of Compensation	1,500
John F. Smoak, Jr.	12	13	Compensation	3,400
Martin J. "Marty" Mckenna,	8	8	Audit	2,400
E.E. "Bucky" Waldron	11	12	Compensation	4,400
Lisa Sherman	12	14	Audit	5,000
John R. Alexander, <i>Retired Vice Chairman</i>	3	1	Retired Chairman – Compensation, Retired Alternated Representative of the AgFirst Nominating Committee	200
				\$31,750

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 of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$ 43,300 for 2009, \$59,051 for 2008, and \$47,768 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 of the Consolidated Financial Statements, “Related Party Transactions,” included in this Annual Report.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2009, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association, for the year ended December 31, 2009.

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 incurred by the Association for services rendered by its independent auditor for the year ended December 31, 2009 were as follows:

	<u>2009</u>
<i>Independent Auditor</i>	
PricewaterhouseCoopers LLP	
Audit services	\$ 58,472
Nonaudit services	—
Total	<u>\$ 58,472</u>

Audit fees were for the annual audit of the Consolidated Financial Statements. There were no nonaudit services provided by the Association’s independent auditor during 2009.

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.

Copies of the Association’s Annual and Quarterly Reports are available upon request, free of charge, by calling 863-494-0500, or writing Farm Credit of Southwest Florida, ACA, Attention: **Jeremy Christian, Controller**, 330 N. Brevard Avenue, Arcadia, Florida 34266. The Reports can also be obtained by going to the Association’s web site at www.farmcreditswfl.com. The Association prepares an electronic version of the Annual Report, which is available on the Association’s web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. 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 institution.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) 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 FCS 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. 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.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion & Analysis of Financial Condition & Results of operations section included in this Annual Report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained 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 Bank's website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly Report, which is available on the Bank's website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

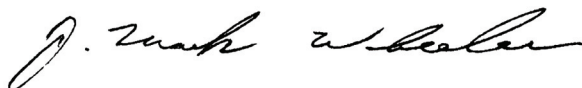
The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of Southwest Florida, ACA (Association) and in the opinion of the Board of Directors; each is free of any relationship with the Association 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 Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditor for 2009, is responsible for expressing an opinion on the conformity of the Association'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, if any, to the Association 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 Association's Annual Report for 2009. The foregoing report is provided by the following independent directors, who constitute the Committee:



J. Mark Wheeler
Chairman of the Audit Committee

Members of Audit Committee

Howard P. Bateman
Walter S. Farr
Lisa Sherman
Martin J. "Marty" McKenna

March 12, 2010

Report of Independent Auditors



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

Report of Independent Auditors

To the Board of Directors and Members
of Farm Credit of Southwest Florida, ACA

In our opinion, the accompanying Consolidated Balance Sheets and the related Consolidated Statements of Income, of Changes in Members' Equity and of Cash Flows present fairly, in all material respects, the financial position of Farm Credit of Southwest Florida, ACA (the Association) and its subsidiaries 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 Association'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 Balance Sheets

<i>(dollars in thousands)</i>	December 31, 2009	December 31, 2008	December 31, 2007
Assets			
Cash	\$ —	\$ —	\$ 64
Investment securities:			
Held to maturity (fair value of \$44,427 \$37,221 and \$36,599 respectively)	47,142	38,517	36,958
Total investment securities	47,142	38,517	36,958
Loans	163,251	198,532	258,245
Less: allowance for loan losses	2,118	4,293	232
Net loans	161,133	194,239	258,013
Accrued interest receivable	1,230	1,715	2,617
Investments in other Farm Credit institutions	16,199	17,174	11,166
Premises and equipment, net	971	1,070	1,072
Other property owned	1,407	178	—
Due from AgFirst Farm Credit Bank	5,832	5,521	5,247
Other assets	4,954	4,853	4,768
Total assets	\$ 238,868	\$ 263,267	\$ 319,905
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 185,163	\$ 211,647	\$ 260,052
Accrued interest payable	358	731	1,274
Patronage refund payable	15	737	2,646
Other liabilities	3,223	2,814	4,364
Total liabilities	188,759	215,929	268,336
Commitments and contingencies			
Members' Equity			
Protected borrower stock	324	329	356
Capital stock and participation certificates	506	553	581
Retained earnings			
Allocated	25,392	22,637	26,030
Unallocated	24,116	23,984	24,827
Accumulated other comprehensive income (loss)	(229)	(165)	(225)
Total members' equity	50,109	47,338	51,569
Total liabilities and members' equity	\$ 238,868	\$ 263,267	\$ 319,905

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

Consolidated Statements of Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2009	2008	2007
Interest Income			
Investment securities	\$ 1,263	\$ 1,512	\$ 1,770
Loans	7,410	10,872	18,349
Total interest income	8,673	12,384	20,119
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	4,816	7,989	13,803
Net interest income	3,857	4,395	6,316
Provision for (reversal of allowance for) loan losses	1,632	4,183	26
Net interest income after provision for (reversal of allowance for) loan losses	2,225	212	6,290
Noninterest Income			
Loan fees	621	702	612
Fees for financially related services	208	112	—
Patronage refund from other Farm Credit institutions	6,958	7,008	8,434
Gains (losses) on other property owned, net	(246)	4	6
Other noninterest income	86	—	243
Total noninterest income	7,627	7,826	9,295
Noninterest Expense			
Salaries and employee benefits	4,566	3,660	3,930
Occupancy and equipment	372	398	418
Insurance Fund premiums	318	268	340
Other operating expenses	1,576	1,595	1,731
Total noninterest expense	6,832	5,921	6,419
Income before income taxes	3,020	2,117	9,166
Provision (benefit) for income taxes	73	1	(76)
Net income	\$ 2,947	\$ 2,116	\$ 9,242

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

Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2006	\$ 508	\$ 601	\$25,779	\$ 24,871	\$ —	\$ 51,759
Net income				9,242		9,242
Protected borrower stock retired	(152)					(152)
Capital stock/participation certificates issued/(retired), net		(20)				(20)
Patronage distribution						
Cash				(2,996)		(2,996)
Qualified allocated retained earnings			261	(261)		—
Nonqualified allocated retained earnings			6,049	(6,049)		—
Retained earnings retired			(5,300)			(5,300)
Patronage distribution adjustment			(759)	20		(739)
Adjustment to initially apply accounting guidance for employee benefit plans (Note 11)					(225)	(225)
Balance at December 31, 2007	356	581	26,030	24,827	(225)	51,569
Comprehensive income						
Net income				2,116		2,116
Employee benefit plans adjustments (Note 11)				(20)	60	40
Total comprehensive income						2,156
Protected borrower stock retired	(27)					(27)
Capital stock/participation certificates issued/(retired), net		(28)				(28)
Patronage distribution						
Cash				(700)		(700)
Nonqualified allocated retained earnings			1,300	(1,300)		—
Retained earnings retired			(5,513)			(5,513)
Patronage distribution adjustment			820	(939)		(119)
Balance at December 31, 2008	329	553	22,637	23,984	(165)	47,338
Comprehensive income						
Net income				2,947		2,947
Employee benefit plans adjustments (Note 11)					(64)	(64)
Total comprehensive income						2,883
Protected borrower stock retired	(5)					(5)
Capital stock/participation certificates issued/(retired), net		(47)				(47)
Patronage distribution						
Nonqualified allocated retained earnings			2,750	(2,750)		—
Patronage distribution adjustment			5	(65)		(60)
Balance at December 31, 2009	\$ 324	\$ 506	\$25,392	\$ 24,116	\$ (229)	\$ 50,109

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

Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net income	\$ 2,947	\$ 2,116	\$ 9,242
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	149	166	173
Amortization (accretion) of net deferred loan origination costs (fees)	(195)	(490)	(283)
Premium amortization (discount accretion) on investments	548	607	—
Provision for (reversal of allowance for) loan losses	1,632	4,183	26
(Gains) losses on other property owned, net	(246)	(4)	(6)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	485	902	574
(Increase) decrease in due from AgFirst Farm Credit Bank	(311)	(274)	(1,606)
(Increase) decrease in other assets	(101)	(85)	(534)
Increase (decrease) in accrued interest payable	(373)	(543)	157
Increase (decrease) in other liabilities	345	(1,506)	696
Total adjustments	1,933	2,956	(803)
Net cash provided by (used in) operating activities	4,880	5,072	8,439
Cash flows from investing activities:			
Purchases of investment securities, held to maturity	(13,839)	(11,602)	(13,795)
Proceeds from maturities of or principal payments received on investment securities, held to maturity	8,266	9,436	9,039
Net (increase) decrease in loans	27,021	59,903	(38,344)
(Increase) decrease in investment in other Farm Credit institutions	975	(6,008)	1,043
Purchases of premises and equipment	(50)	(164)	(261)
Proceeds from sales of other property owned	65	—	—
Net cash provided by (used in) investing activities	22,438	51,565	(42,318)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(26,484)	(48,405)	43,020
Protected borrower stock retired	(5)	(27)	(152)
Capital stock and participation certificates issued/(retired), net	(47)	(28)	(20)
Patronage refunds and dividends paid	(782)	(2,728)	(3,605)
Retained earnings retired	—	(5,513)	(5,300)
Net cash provided by (used in) financing activities	(27,318)	(56,701)	33,943
Net increase (decrease) in cash	—	(64)	64
Cash, beginning of period	—	64	—
Cash, end of period	\$ —	\$ —	\$ 64
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	\$ 2,638	\$ —	\$ —
Loans transferred to other property owned	3,686	178	—
Loans transferred to investments (Note 3)	3,600	—	—
Cash dividends or patronage distributions declared or payable	—	700	2,996
Increase in liability resulting from adoption of accounting guidance for employee benefit plans (Note 11)	—	—	225
Employee benefit plans adjustments (Note 11)	64	(40)	—
Supplemental information:			
Interest paid	\$ 5,189	\$ 8,532	\$ 13,646
Taxes (refunded) paid, net	58	36	(35)

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of Southwest Florida, ACA (Association) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified purposes in the counties of Charlotte, Collier, DeSoto, Glades, Hardee, Hendry, Highlands, Lee, Manatee, and Sarasota in the state of Florida.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2009, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and eighty-nine associations.

AgFirst Farm Credit Bank (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to associations within the District and is responsible for supervising certain activities of the Association, as well as the other associations operating within the District. The District consists of the Bank and twenty-two Agricultural Credit Associations (ACAs), all of which are structured as ACA parent-companies, which have two wholly owned subsidiaries, a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA). FLCAs are tax-exempt while ACAs and PCAs are taxable.

ACA parent-companies provide financing and related services through its FLCA and PCA subsidiaries. The FLCA makes collateralized long-term agricultural real estate and rural home mortgage loans. The ACA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

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 Association, 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 still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, 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 Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management 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 may differ from these estimates.

Certain amounts in prior years' financial statements may have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on net income or total members' equity of prior years. The Consolidated Financial Statements include the accounts of the FLCA and the PCA. All significant inter-company transactions have been eliminated in consolidation.

A. **Cash:** Cash, as included in the statements of cash flows, represents cash on hand and on deposit at banks.

B. Investment Securities: The Association, as permitted under the FCA regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. The Association's investments are classified as held-to-maturity and accordingly have been reported at amortized cost. Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security which approximates the effective interest method.

The Association may also hold additional investments in accordance with mission-related investment and other investment programs approved by the Farm Credit Administration. These programs allow the Association to make investments that further the System's mission to serve rural America. Mortgage-backed securities issued by Farmer Mac are considered other investments. Mission-related investments for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts. Farmer Mac investments are classified either as held-to-maturity or available-for-sale depending on the institution's ability and intent to hold the investment to maturity. The ACA does not hold any Farmer Mac Investment Securities.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the carrying value of the security would be written down to fair value, the credit-related loss would be included in earnings in the period of impairment and the non-credit related portion would be 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 ranging from 5 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 and deferred loan fees or costs.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately collateralized 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) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income 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. Otherwise, loan payments are applied against the recorded investment in the loan. 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, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Association 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.

Loan origination fees and direct loan origination costs are deferred as part of the carrying amount of the loan and the net fee or cost is amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses existing 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 allowance for loan losses is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including current production and economic conditions, loan portfolio composition, collateral value, portfolio quality and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The Association considers the following factors when adjusting the historical charge-offs experience:

- Changes in credit risk classifications,
- Changes in collateral values,
- Changes in risk concentrations,
- Changes in weather related conditions, and
- Changes in economic conditions.

Impaired loans are loans for which it is probable that not all principal and interest will 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, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

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

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.

D. Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions: The Association is required to maintain ownership in the Bank in the form of Class C stock.

Accounting for this investment is on the cost plus allocated equities basis. Patronage refunds from the Bank are accrued as earned. The receivable for such patronage refunds is classified as due from AgFirst Farm Credit Bank.

E. Other Property Owned: Other property owned, consisting of real and personal property acquired through a collection action, 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, expenses, and carrying value adjustments related to other property owned are included in gains (losses) on other property owned, net.

F. 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. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

G. Advanced Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as interest-bearing liabilities in the accompanying Consolidated Balance Sheets. Advanced

conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. Employee Benefit Plans: Substantially all employees of the Association may participate in either the AgFirst Farm Credit Final Average Pay Retirement Plan or the AgFirst Farm Credit Cash Balance Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer plans. These two Plans are noncontributory and include eligible District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined cost of these Plans are allocated to each participating entity, including the Association, 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.

Substantially all employees of the Association may also be eligible to participate in a defined contribution Districtwide 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 Association contributes \$.50 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes \$1.00 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. 401(k) plan costs are expensed as funded.

The Association may provide certain health care and life insurance benefits to eligible retired employees. Substantially all employees may become eligible for these benefits if they reach early retirement age while working for the Association. 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.

I. Income Taxes: The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the

temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

- J. **Patronage Refund from AgFirst and Other Financial Institutions:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.
- K. **Fair Value Measurement:** Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. 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 14.
- L. **Recently Issued Accounting Pronouncements:** Effective January 1, 2009, the Association adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures (see Note 14), primarily regarding other property owned, but does not have an impact on the Association's financial condition or results of operations.

In April 2009, the Financial Accounting Standards Board (FASB) issued guidance, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." The guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for the fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. The

guidance indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The Association adopted this guidance effective June 30, 2009 (see Note 3).

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

The Association adopted this guidance effective June 30, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. There was no initial adjustment to apply this guidance for the Association since no other-than-temporary impairment was previously recognized by the Association.

In April 2009, the FASB issued guidance, "Interim Disclosures about Fair Value of Financial Instruments." This guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The Association adopted this guidance effective June 30, 2009 (see Note 15).

In May 2009, the FASB issued guidance, "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be included in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not included in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was adopted by the Association effective June 30, 2009 (see Note 17).

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

Note 3 — Investment Securities

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

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 37,214	\$ 30	\$ (819)	\$ 36,425	1.13%
Mission-related investments	\$ 9,928	\$ 66	\$ (1,992)	\$ 8,002	6.19%
Total	\$ 47,142	\$ 96	\$ (2,811)	\$ 44,427	2.20%

	December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 35,128	\$ -	\$ (1,017)	\$ 34,111	2.55%
Mission-related investments	\$ 3,389	\$ 44	\$ (323)	\$ 3,110	6.37%
Total	\$ 38,517	\$ 44	\$ (1,340)	\$ 37,221	2.89%

	December 31, 2007				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 35,958	\$ 3	\$ (378)	\$ 35,583	5.47%
Mission-related investments	\$ 1,000	\$ 16	\$ -	\$ 1,016	7.75%
Total	\$ 36,958	\$ 19	\$ (378)	\$ 36,599	5.53%

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

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 82	\$ 79	(5.27)%
After one year through five years	4,386	4,261	0.66
After five years through ten years	26,362	25,777	1.35
After ten years	16,312	14,310	4.03
Total	\$ 47,142	\$ 44,427	2.20%

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are rated AAA and they are guaranteed by the full faith and credit of the United States government. Asset-backed securities are held for 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 AAA 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 and the priority of payments of senior classes over junior classes. The FCA considers an asset-backed security investment ineligible if it falls below the AAA credit rating criteria and requires System institutions to divest of such an investment unless approval is granted to continue to hold by the FCA. All of the Association's asset-backed securities at December 31, 2009 are considered eligible under FCA regulatory guidelines. Mission-related investments consist of private placement securities purchased under the Rural America Bond Program approved by the FCA. In 2009, the Association reclassified two mission-related investments purchased in 2008, which totaled \$3,600, from loans to investments. The reclassification better reflects the

nature of these financial instruments and provides for consistent presentation across the District.

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 December 31, 2009:

	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ 5,235	\$ (64)	\$ 26,578	\$ (755)
Mission-related investments	\$ 4,886	\$ (1,394)	\$ 1,652	\$ (598)
Total	\$ 10,121	\$ (1,458)	\$ 28,230	\$ (1,353)

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 reduced liquidity in the securities markets stemming from general adversity in the financial markets. 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, especially after considering credit enhancements. 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. Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform.

Note 4 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31,		
	2009	2008	2007
Real estate mortgage	\$ 71,428	\$ 99,142	\$ 139,256
Production and intermediate term	45,416	44,271	78,800
Processing and marketing	29,886	36,378	24,632
Farm related business	7,119	12,222	12,044
Loans to cooperatives	5,493	1,678	—
Rural residential real estate	2,801	1,857	1,686
Communication	1,108	1,144	—
Energy	—	1,840	1,827
Total loans	\$ 163,251	\$ 198,532	\$ 258,245

A substantial portion of the Association’s lending activities is collateralized and the Association’s exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association’s credit risk exposure is considered in the determination of the allowance for loan losses.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management’s credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property’s appraised value. However, a decline in a property’s market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

The following table presents information relating to impaired loans as defined in Note 2.

	December 31,		
	2009	2008	2007
Impaired nonaccrual loans:			
Current as to principal and interest	\$ 5,429	\$ 8,686	\$ —
Past due	6,344	5,751	995
Total impaired nonaccrual loans	11,773	14,437	995
Impaired accrual loans:			
Restructured	—	—	—
90 days or more past due	105	—	—
Total impaired accrual loans	105	—	—
Total impaired loans	\$ 11,878	\$ 14,437	\$ 995

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

The following table summarizes impaired loan information for the year ended December 31,

	2009	2008	2007
Average impaired loans	\$ 12,567	\$ 6,534	\$ 1,495

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.

	Year Ended December 31,		
	2009	2008	2007
Interest income recognized on impaired nonaccrual loans	\$ 200	\$ 36	\$ 86
Interest income on impaired accrual loans	5	—	4
Interest income recognized on impaired loans	\$ 205	\$ 36	\$ 90

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

	Year Ended December 31,		
	2009	2008	2007
Interest income which would have been recognized under the original loan terms	\$ 709	\$ 511	\$ 151
Less: interest income recognized	157	—	86
Foregone interest income	<u>\$ 552</u>	<u>\$ 511</u>	<u>\$ 65</u>

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

	Year Ended December 31,		
	2009	2008	2007
Balance at beginning of year	\$ 4,293	\$ 232	\$ 187
Charge-offs:			
Real estate mortgage	(3,111)	(94)	—
Agribusiness	(579)	—	—
Production and intermediate term	(100)	(25)	—
Rural residential real estate	(69)	(19)	—
Total charge-offs	<u>(3,859)</u>	<u>(138)</u>	<u>—</u>
Recoveries:			
Real estate mortgage	33	16	17
Agribusiness	19	—	—
Production and intermediate term	—	—	2
Total recoveries	<u>52</u>	<u>16</u>	<u>19</u>
Net (charge-offs) recoveries	<u>(3,807)</u>	<u>(122)</u>	<u>19</u>
Provision for (reversal of allowance for) loan losses	1,632	4,183	26
Balance at end of year	<u>\$ 2,118</u>	<u>\$ 4,293</u>	<u>\$ 232</u>
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	<u>(2.098)%</u>	<u>(0.067)%</u>	<u>0.01%</u>

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

	2009	2008	2007
Impaired loans with related allowance	\$ 5,370	\$11,329	\$ 914
Impaired loans with no related allowance	6,508	3,108	81
Total impaired loans	<u>\$ 11,878</u>	<u>\$14,437</u>	<u>\$ 995</u>
Allowance on impaired loans	<u>\$ 1,499</u>	<u>\$ 3,659</u>	<u>\$ 163</u>

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

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
Agribusiness	\$ 977	46%	\$ 972	23%
Real estate mortgage	964	46	2,958	69
Production and intermediate term	108	5	327	7
Rural residential real estate	69	3	36	1
Total	<u>\$ 2,118</u>	<u>100%</u>	<u>\$ 4,293</u>	<u>100%</u>

	December 31, 2007	
	Amount	%
Agribusiness	\$ 15	6%
Real estate mortgage	197	85
Production and intermediate term	20	9
Rural residential real estate	—	—
Total	<u>\$ 232</u>	<u>100%</u>

To mitigate the risk of loan losses, the Association has entered into Long-term Standby Commitment to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under Long-term Standby Commitments to Purchase was \$3,607, \$4,609 and \$6,695 at December 31, 2009, 2008 and 2007, respectively. Fees paid to Farmer Mac for such commitments totaled \$22, \$28 and \$39 for the years ended December 31, 2009, 2008 and 2007, respectively. These amounts are classified as noninterest expense.

Note 5 — Investment in AgFirst Farm Credit Bank

The Association is required to maintain ownership in the Bank of Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements.

Note 6 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2009	2008	2007
Land	\$ 167	\$ 167	\$ 164
Buildings and improvements	1,077	1,054	1,027
Furniture and equipment	887	870	877
	<u>2,131</u>	<u>2,091</u>	<u>2,068</u>
Less: accumulated depreciation	1,160	1,021	996
Total	<u>\$ 971</u>	<u>\$ 1,070</u>	<u>\$ 1,072</u>

Note 7 — Other Property Owned

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

	December 31,		
	2009	2008	2007
Gains (losses) on sale, net	\$ 73	\$ 6	\$ 6
Operating income (expense), net	(319)	(2)	—
Gains (losses) on other property owned, net	<u>\$ (246)</u>	<u>\$ 4</u>	<u>\$ 6</u>

Deferred gains on sales of other property owned totaled \$680 thousand for 2009 and \$0 for 2008 and 2007. Gains were deferred as the sales involved financing from the Association. The deferred gains are included in loans in the Consolidated Balance Sheets.

Note 8 — Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by a general financing agreement. Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives.

The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association. The weighted average interest rates on the variable rate notes were 1.47 percent for LIBOR-based loans, 1.72 percent for Prime-based loans, and the weighted average remaining maturities were 3.0 years and 2.5 years, respectively, at December 31, 2009. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) notes payable which are match funded by the Bank was 3.24 percent and the weighted average remaining maturity was 6.2 years at December 31, 2009. The weighted average interest rate on all interest-bearing notes payable was 2.57 percent and the weighted average remaining maturity was 4.8 years at December 31, 2009.

Variable rate and fixed rate notes payable represent approximately 46.45 percent and 53.55 percent, respectively, of total notes payable at December 31, 2009.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2009, the Association's notes payable were within the specified limitations.

Note 9 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. Protected Borrower Stock

Protection of certain borrower stock is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower stock, to retire such stock at par or stated value regardless of its book value. Protected borrower stock includes capital stock and participation certificates, which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. Capital Stock and Participation Certificates

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C common stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of \$1 thousand or two percent of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

C. Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require the Association to achieve permanent capital of 7.00 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the 7.00 percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. The FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-

adjusted assets of 7.00 percent and of core surplus as a percentage of risk-adjusted assets of 3.50 percent. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2009 were 14.43 percent, 14.17 percent and 10.85 percent, respectively.

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 Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

D. Description of Equities

The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share.

The Association had the following shares outstanding at December 31, 2009:

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
B Common/Nonvoting	Yes	64,400	\$ 322
C Common/Voting	No	94,000	470
B Participation Certificates/Nonvoting	Yes	400	2
C Participation Certificates/Nonvoting	No	7,400	37
Total Capital Stock and Participation Certificates		166,200	\$ 831

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met.

At December 31, 2009, allocated members' equity consisted of no qualified and \$25,392 of nonqualified distributions. Nonqualified distributions are tax deductible only when redeemed.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A and D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividend paid on Class A, B or C Common Stock or participation certificates for such year. The rate of dividends on Class A, B and C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage

distribution to any borrower for any fiscal year shall always be paid in cash.

Transfer

Classes A and D Preferred, Classes A, B and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Allocated Surplus evidenced by nonqualified written notices of allocation.
2. Allocated Surplus evidenced by qualified written notices of allocation
3. Classes A, B and C Common Stock, Classes B and C Participation Certificates
4. Classes A and D Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Classes A and D Preferred Stock
2. Classes A and B and C Common Stock and Class B and C Participation Certificates
3. Holders of allocated surplus evidenced by qualified written notices of allocation.
4. Holders of allocated surplus evidenced by non-qualified written notices of allocation.
5. All unallocated surplus issued after April 23, 1998 shall be distributed to Patrons of the Association from the period beginning April 23, 1998.
6. Any remaining assets of the Association after such distributions shall be distributed ratably to the holders of all classes of stock and participation certificates.

E. Accumulated Other Comprehensive Income (Loss)

The Association reports accumulated other comprehensive income (loss) (AOCI) in its Consolidated Statements of Changes in Members' Equity. The Association reported AOCI of \$(229), \$(165) and \$(225) at December 31, 2009, 2008 and 2007, respectively, due to FASB guidance on employers' accounting for defined benefit pension and other postretirement plans (see Note 11 for further information).

Note 10 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2009	2008	2007
Current:			
Federal	\$ 58	\$ 1	\$ (68)
State	15	-	1
	<u>73</u>	<u>1</u>	<u>(67)</u>
Deferred:			
Federal	-	-	(9)
State	-	-	-
	<u>-</u>	<u>-</u>	<u>(9)</u>
Total provision (benefit) for income taxes	<u>\$ 73</u>	<u>\$ 1</u>	<u>\$ (76)</u>

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2009	2008	2007
Federal tax at statutory rate	\$ 1,027	\$ 720	\$ 3,116
State tax, net	10	-	7
Patronage distributions	-	(238)	(1,107)
Tax-exempt FLCA earnings	(1,147)	(461)	(2,118)
Change in deferred tax asset valuation allowance	111	(75)	75
Bank equity redemption	-	95	98
Other	72	(40)	(147)
Provision (benefit) for income taxes	<u>\$ 73</u>	<u>\$ 1</u>	<u>\$ (76)</u>

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2009	2008	2007
Deferred income tax assets:			
Allowance for loan losses	\$ 174	\$ 133	\$ 86
Loan origination fees	29	27	44
Annual leave	104	94	80
Nonaccrual loan interest	7	7	3
Postretirement health benefits	552	536	522
Fixed assets	36	-	-
Deferred incentive	72	71	90
Other	48	38	-
Gross deferred tax assets	<u>1,022</u>	<u>906</u>	<u>825</u>
Less: valuation allowance	<u>(111)</u>	<u>-</u>	<u>(75)</u>
Gross deferred tax assets, net of valuation allowance	<u>911</u>	<u>906</u>	<u>750</u>
Deferred income tax liabilities:			
Loan origination fees	-	-	-
Defined pension benefits	(911)	(906)	(742)
Depreciation	-	-	(8)
Other	-	-	-
Gross deferred tax liability	<u>(911)</u>	<u>(906)</u>	<u>(750)</u>
Net deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2009, deferred income taxes have not been provided by the Association on approximately \$1.3 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$111, \$0 and \$75 during 2009, 2008 and 2007, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2009 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2005 and forward.

Note 11 — Employee Benefit Plans

The Association 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. Financial information regarding each of these plans follows.

Substantially all employees of the Association 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 (the CB Plan.) These two plans are noncontributory and include eligible 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 under 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. As a participant in these District defined benefit plans, the Association funded \$967 for 2009, \$650 for 2008, and \$0 for 2007, through its note payable to the Bank. Plan expenses included in salaries and employee benefits were \$953 for 2009, \$215 for 2008, and \$321 for 2007.

The District sponsors a plan providing certain benefits (primarily health care) to its retirees. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions (primarily health care benefits) included in salaries and employee benefits were \$79 for 2009, \$75 for 2008, and \$74 for 2007.

Under FASB guidance on employers' accounting for defined benefit pension and other postretirement plans, accounting for the guidance follows the plan sponsor, which is at the District entity level for the Districtwide benefit plans in which the Association participates. Therefore, there is no impact to the

Association's financial statements due to this guidance for the defined benefit plans discussed above. Additional financial information for the District sponsored plans, including the impact of this guidance, may be found in Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2009 Annual Report.

In addition, supplemental retirement benefits are provided to certain key employees under a supplemental defined benefit executive plan. Assets have been allocated and separately invested for this plan but are not isolated from the general creditors of the Association.

The supplemental defined benefit executive plan is unfunded and had a projected benefit obligation of \$416 and a net under-funded status of \$416 at December 31, 2009. Net periodic pension cost for the period was \$87. The assumptions used to determine the projected benefit obligation included a discount rate of 6.00 percent.

FASB guidance requires the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of this guidance were adopted at December 31, 2007 by the Association for the single employer supplemental nonqualified plan, resulting in an adjustment of \$225 to accumulated other comprehensive income (loss) (AOCI).

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. This guidance provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association 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 Association decreased unallocated retained earnings by \$20.

FASB guidance further requires 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. These amounts are subsequently recognized as components of net periodic benefit costs over time. For 2009 and 2008, \$(64) and \$60 has been recognized as a net debit and credit, respectively, to AOCI to reflect these elements.

The Association participates in a defined contribution Districtwide 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 Association will contribute \$.50 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association will contribute \$1.00 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. Employer contributions to this plan were \$84, \$86, and \$94 for the years ended December 31, 2009, 2008 and 2007, respectively.

Note 12 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2009 amounted to \$4,628. During 2009, \$3,977 of new loans were made and repayments totaled \$3,942. In the opinion of management, none of these loans outstanding at December 31, 2009 involved more than a normal risk of collectibility.

Note 13 — Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2009, \$59,210 of commitments to extend credit and \$1,339 of commercial letters of credit was 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 credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. 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 collateral or other security 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.

The Association also 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 Association had outstanding \$2,631 of standby letters of credit, with expiration dates ranging from January 1, 2010 to October 25, 2012. The maximum potential amount of future payments the Association may be required to make under these existing guarantees is \$2,631.

A guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the guarantee commitment. The Association 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 Association's inventory. At December 31, 2009, the Association's inventory of standby letters of credit had a fair value of \$81 and was included in other liabilities.

During 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investments Company (RBIC). At December 31, 2009 there was an outstanding commitment of \$80 to make additional equity purchases.

Note 14 — Fair Value Measurement

As described in Note 2, 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 assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

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

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

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at 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. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at December 31, 2009.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at December 31, 2009 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. 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 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:

December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 286	\$ -	\$ -	\$ 286
Total Assets	\$ 286	\$ -	\$ -	\$ 286
Liabilities:				
Standby letters Of credit	\$ -	\$ -	\$ 81	\$ 81
Total Liabilities	\$ -	\$ -	\$ 81	\$ 81
December 31, 2008				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 263	\$ -	\$ -	\$ 263
Total Assets	\$ 263	\$ -	\$ -	\$ 263
Liabilities:				
Standby letters Of credit	\$ -	\$ -	\$ 64	\$ 64
Total Liabilities	\$ -	\$ -	\$ 64	\$ 64

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 64
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	17
Transfers in and/or out of level 3	-
Balance at December 31, 2009	\$ 81
	Standby Letters Of Credit
Balance at January 1, 2008	\$ 115
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(51)
Transfers in and/or out of level 3	-
Balance at December 31, 2008	\$ 64

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, fair value of nonfinancial instruments, such as other property owned, began in 2009.

December 31, 2009						YTD
	Level 1	Level 2	Level 3	Total Fair Value		Total Gains (Losses)
Assets:						
Impaired loans	\$ -	\$ -	\$ 3,871	\$ 3,871	\$	(1,647)
Other property owned	\$ -	\$ -	\$ 1,486	\$ 1,486	\$	73
December 31, 2008						YTD
	Level 1	Level 2	Level 3	Total Fair Value		Total Gains (Losses)
Assets:						
Impaired loans	\$ -	\$ -	\$ 7,670	\$ 7,670	\$	(3,618)

Note 15 — Disclosures About Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Association’s financial instruments at 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:

	December 31, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	\$ -	\$ -	\$ -	\$ -
Loans, net of allowance	\$ 161,133	\$ 163,461	\$ 194,239	\$ 196,194
Investment securities	\$ 47,142	\$ 44,427	\$ 38,517	\$ 37,221
Assets held in trust funds	\$ 286	\$ 286	\$ 263	\$ 263
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 185,163	\$ 186,515	\$ 211,647	\$ 213,786
	December 31, 2007			
	Carrying Amount	Estimated Fair Value		
Financial assets:				
Cash	\$ 64	\$ 64		
Loans, net of allowance	\$ 258,013	\$ 260,831		
Investment securities	\$ 36,958	\$ 36,599		
Assets held in trust funds	\$ 284	\$ 284		
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 260,052	\$ 263,010		

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 Securities:** For asset-backed securities, fair value is primarily based upon prices obtained from a third party valuation service. For mission-related investments, fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.

D. Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions: Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. As described in Note 5, 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 3.44 percent of the issued stock of the Bank as of December 31, 2009 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.9 billion and shareholders' equity totaled \$1.6 billion. The Bank's earnings were \$309 million during 2009.

In addition, the Association has an investment of \$2,986 related to other Farm Credit institutions.

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.

G. Assets Held in Trust Funds: See Note 14 for discussion of estimation of fair value for this instrument.

Note 16 — Quarterly Financial Information (Unaudited)

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

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 971	\$ 930	\$ 928	\$ 1,028	\$ 3,857
Provision for (reversal of allowance for) loan losses	211	1,411	646	(636)	1,632
Noninterest income (expense), net	202	5	229	286	722
Net income (loss)	\$ 962	\$ (476)	\$ 511	\$ 1,950	\$ 2,947

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,523	\$ 858	\$ 910	\$ 1,104	\$ 4,395
Provision for (reversal of allowance for) loan losses	883	1,166	653	1,481	4,183
Noninterest income (expense), net	911	(150)	1,021	122	1,904
Net income (loss)	\$ 1,551	\$ (458)	\$ 1,278	\$ (255)	\$ 2,116

	2007				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,584	\$ 1,486	\$ 1,569	\$ 1,677	\$ 6,316
Provision for (reversal of allowance for) loan losses	(36)	(17)	(83)	162	26
Noninterest income (expense), net	187	639	707	1,419	2,952
Net income (loss)	\$ 1,807	\$ 2,142	\$ 2,359	\$ 2,934	\$ 9,242

Note 17 – Subsequent Events

The Association 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.

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