

THIRD QUARTER 2010

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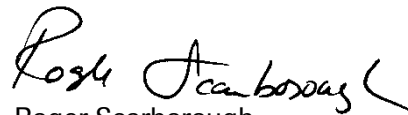
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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2010 quarterly report of Farm Credit of North 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.



J. Charles Thompson
Chief Executive Officer



Roger Scarborough
Chief Financial Officer



Henry M. Frazee
Chairman of the Board

November 5, 2010

Farm Credit of North Florida, ACA

Report on Internal Control Over Financial Reporting

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

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

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

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



J. Charles Thompson
Chief Executive Officer



Roger Scarborough
Chief Financial Officer

November 5, 2010

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of *Farm Credit of North Florida, ACA* (Association) for the period ending September 30, 2010. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2009 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including forestry, livestock, equine, horticulture/nurseries, dairy, potatoes, and poultry. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, helps to reduce the level of dependency on a given commodity.

Net loans accounted for 91.33 percent of total assets at September 30, 2010, as compared to 93.05 and 91.80 percent of total assets at September 30, 2009 and December 31, 2009, respectively.

Loans are comprised of the following: originated loans, participations purchased, less participations sold, notes receivable, and nonaccrual loans. The loan volume of the Association decreased \$50,991 since December 31, 2009. The decrease is primarily the result of reduced originated and purchased volume offset by less participations sold.

Credit quality continues to deteriorate with 72.70% of loans currently classified acceptable compared to 81.08% on September 30, 2009.

Delinquencies and default rates remain high compared to historical norms. Nonaccrual loans have increased from \$23,109 on September 30, 2009, to \$51,488 on September 30, 2010, an increase of 222.80 percent. This increase is primarily the result of loan transfers to nonaccrual status in excess of liquidations, normal payments, and upgrading to performing status.

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

Collateral values continue to erode leading to additional provisions for loan losses. A provision in the amount of \$6,287 was made in the third quarter due to declining credit quality and charge-offs taken on specific loans. The resulting allowance for loan losses was \$7,857 at September 30, 2010 compared to \$3,562 at December 31, 2009 and \$5,853 at September 30, 2009.

RESULTS OF OPERATIONS

For the three months ending September 30, 2010

Net income for the three months ending September 30, 2010, totaled \$(6,852) as compared to \$890 for the same period in 2009; this is a decrease of \$(7,742).

Major changes in the components of net income compared to the same period last year are identified as follows:

Net interest income decreased \$193 primarily due to the loss of incremental earnings on a decreasing loan portfolio.

A combination of loan charge-offs and additional credit quality deterioration led to a \$5,987 provision for loan losses in the third quarter.

Noninterest income decreased \$1,437, primarily the result of write downs on the values of other property owned.

Noninterest expense decreased \$47 primarily as a result of decreased insurance fund premiums.

Other operating expenses increased \$153, primarily the result of increased litigation expenses associated with deteriorating loans.

For the nine months ending September 30, 2010

Net income for the nine months ending September 30, 2010, totaled \$(8,278) as compared to \$2,233 for the same period in 2009; this is a decrease of \$(10,511).

Major changes in the components of net income compared to the same period last year are identified as follows:

Net interest income decreased \$407 primarily due to reduced accruing loan volume during the period.

Delinquencies and default rates remain high compared to historical norms. Collateral values continue to erode leading to additional provisions for loan losses. A combination of loan charge-offs and deterioration in credit quality led to \$10,292 in provisions for loan losses year-to-date compared to \$1,210 during the same period last year.

Noninterest income decreased \$1,332, primarily the result of increased losses on other property owned. This was offset by the Association recording \$514 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. The refund income is offset by decreased loans fees and increased losses on other property owned. Fee income is less primarily due to the deferral of loan origination fees under accounting guidance.

Noninterest expense decreased \$519, primarily due to a decrease in insurance fund premiums of \$450.

The majority of the increase in other operating expense is due to litigation expense dealing with deteriorating loans.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. 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.

The total notes payable to the Bank at September 30, 2010, was \$365,235 as compared to \$411,638 at December 31, 2009, a decrease of \$46,403. The decrease is primarily attributed to decreased loan activity combined with repayments made by the Association from funds generated by collections from borrowers during the nine-month period.

The total notes payable to the Bank decreased \$44,418 at September 30, 2010, as compared to September 30, 2009. This decrease is primarily the result of decreased loan activity

combined with repayments made by the Association from funds generated by collections from borrowers.

CAPITAL RESOURCES

Total members' equity at September 30, 2010, decreased to \$63,275 from the December 31, 2009, total of \$71,594; this is a decrease of \$8,319 during the nine months. The decrease is the result of the association's year-to-date provisions for loan loss in the amount of \$10,292 exceeding other earnings sources.

Total members' equity decreased \$9,036 during the 12 months ending September 30, 2010. The decrease is primarily due to provisions for loan losses during the period exceeding other earnings sources.

The combined protected borrower capital, unprotected stock and participation certificates were \$1,433 on September 30, 2010, compared to \$1,560 on December 31, 2009.

This decrease is attributed to more protected borrower equity and capital stock being retired than capital stock issued during the period.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of September 30, 2010, the Association's total surplus ratio and core surplus ratio were 13.70 percent and 13.14 percent, respectively, and the permanent capital ratio was 14.04 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

On July 8, 2010, the Farm Credit Administration issued an advance notice of proposed rulemaking (ANPRM) to gather public comments on the promulgation of Tier 1 and Tier 2 capital standards for Farm Credit System institutions. The Tier 1/Tier 2 capital standards would be similar to the capital tiers delineated in the Basel Accord that other Federal financial regulatory agencies have adopted for the banking organizations they regulate. The Farm Credit Administration is seeking comments to facilitate the development of this regulatory capital framework, including new minimum risk-based and leverage ratio capital requirements that take into consideration both the System's cooperative structure of primarily wholesale banks owned by retail lender Associations that are, in turn, owned by their member borrowers, and the System's status as a Government-sponsored enterprise. The comment period for the ANPRM ends November 5, 2010.

Financial Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law on July 21, 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, many of the rules and regulations are not applicable to the System. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

The Dodd-Frank Act creates new regulators and expands the authority of the Federal Reserve Board over non-bank financial companies previously not subject to its or other bank regulators' direct jurisdiction, particularly those that are important to the U.S. financial system. Nevertheless, the Dodd-Frank Act largely preserves the authority of the Farm Credit Administration as the System's independent federal regulator by excluding System institutions from being a non-bank financial company and providing other exemptions and exclusions from certain of the law's provisions. Also, the rules prohibiting banking entities from engaging in proprietary trading under the so-called Volcker Rule will not apply to the debt securities issued by the System.

The provisions of the Dodd-Frank Act pertaining to the regulation of over-the-counter derivatives will require more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges. These requirements have the potential of making derivative transactions more costly and less attractive as risk management tools for System institutions. The Dodd-Frank Act requires the Commodities Futures Trading Commission to consider an end-user exemption from the mandatory clearing and trading requirements for derivative transactions entered into by certain System institutions.

Among the studies called for under the Act are two that will examine Fannie Mae, Freddie Mac, and federal home loan finance. One provision expressed Congress' sense of importance of GSE reform to residential mortgage credit. The other calls for the Treasury department to conduct a study on ending the conservatorship of Fannie Mae and Freddie Mac and reforming the federal housing finance system. A potential risk for the Farm Credit System is that the System is also a GSE and may directly or indirectly be impacted by the decisions made as Congress addresses Fannie Mae and Freddie Mac.

In light of the foregoing, it is difficult to predict at this time the extent to which the Dodd-Frank Act or the forthcoming implementing rules and regulations will have on the System. However, it is possible they could affect funding strategies and increase funding costs.

MERGER ACTIVITY

Please refer to Note 7, Merger Activity, in the Notes to the Financial Statements for information regarding merger activity of the Association.

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-342-3795, writing Roger Scarborough, CFO, Farm Credit of North Florida, ACA, 12300 NW US HWY 441, Alachua, FL 32615, or accessing the website, www.fcnf.com. The Association prepares a 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.

Farm Credit of North Florida, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30,		December 31,
	2010	2009	2009
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Assets			
Cash	\$ 23	\$ 13	\$ 68
Loans	403,722	461,488	454,713
Less: allowance for loan losses	7,857	5,853	3,562
Net loans	395,865	455,635	451,151
Other investments	10,088	10,859	12,320
Accrued interest receivable	2,629	3,048	2,474
Investment in other Farm Credit institutions	9,811	9,666	9,863
Premises and equipment, net	2,563	2,749	2,649
Other property owned	6,767	1,995	5,009
Due from AgFirst Farm Credit Bank	2,528	2,829	4,264
Other assets	3,175	2,867	3,671
Total assets	\$ 433,449	\$ 489,661	\$ 491,469
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 365,235	\$ 409,653	\$ 411,638
Accrued interest payable	856	1,075	1,041
Patronage refund payable	51	77	617
Advanced conditional payments	531	2,860	2,580
Other liabilities	3,501	3,685	3,999
Total liabilities	370,174	417,350	419,875
Commitments and contingencies			
Members' Equity			
Protected borrower equity	40	55	55
Capital stock and participation certificates	1,393	1,490	1,505
Retained earnings			
Allocated	40,872	39,822	40,782
Unallocated	20,970	30,944	29,252
Total members' equity	63,275	72,311	71,594
Total liabilities and members' equity	\$ 433,449	\$ 489,661	\$ 491,469

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

Farm Credit of North Florida, ACA

Consolidated Statements of Operations

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Interest Income				
Loans	\$ 4,673	\$ 5,470	\$ 14,781	\$ 17,044
Other	123	143	370	425
Total interest income	4,796	5,613	15,151	17,469
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	2,696	3,319	8,672	10,575
Other	—	1	2	10
Total interest expense	2,696	3,320	8,674	10,585
Net interest income	2,100	2,293	6,477	6,884
Provision for loan losses	6,287	300	10,292	1,210
Net interest income (loss) after provision for (reversal of allowance for) loan losses	(4,187)	1,993	(3,815)	5,674
Noninterest Income				
Loan fees	163	234	348	702
Equity in earnings of other Farm Credit institutions	833	940	2,831	2,899
Gains (losses) on other property owned, net	(1,333)	(77)	(1,831)	(385)
Gains (losses) on sale of rural home loans, net	32	37	101	76
Insurance Fund refund	—	—	514	—
Other noninterest income	18	16	150	153
Total noninterest income (loss)	(287)	1,150	2,113	3,445
Noninterest Expense				
Salaries and employee benefits	1,398	1,466	4,323	4,468
Occupancy and equipment	160	142	422	442
Insurance Fund premium	57	206	165	615
Other operating expenses	592	439	1,457	1,361
Total noninterest expense	2,207	2,253	6,367	6,886
Income (loss) before income taxes	(6,681)	890	(8,069)	2,233
Provision for income taxes	171	—	209	—
Net income (loss)	\$ (6,852)	\$ 890	\$ (8,278)	\$ 2,233

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

Farm Credit of North Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2008	\$ 71	\$ 1,609	\$ 40,688	\$ 28,988	\$ 71,356
Net income				2,233	2,233
Protected borrower equity retired	(16)				(16)
Capital stock/participation certificates issued/(retired), net		(119)			(119)
Retained earnings retired			(1,138)		(1,138)
Patronage distribution adjustment			272	(277)	(5)
Balance at September 30, 2009	\$ 55	\$ 1,490	\$ 39,822	\$ 30,944	\$ 72,311
Balance at December 31, 2009	\$ 55	\$ 1,505	\$ 40,782	\$ 29,252	\$ 71,594
Net income (loss)				(8,278)	(8,278)
Protected borrower equity retired	(15)				(15)
Capital stock/participation certificates issued/(retired), net		(112)			(112)
Patronage distribution adjustment			90	(4)	86
Balance at September 30, 2010	\$ 40	\$ 1,393	\$ 40,872	\$ 20,970	\$ 63,275

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

Farm Credit of North Florida, ACA

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures would be amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This would include a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance should have no impact on the Association's financial condition or results of operations, but it will result in additional disclosures.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,	
	2010	2009
Balance at beginning of period	\$ 3,562	\$ 6,877
Provision for (reversal of) loan losses	10,292	1,210
Charge-offs	(6,070)	(2,238)
Recoveries	73	4
Balance at end of period	<u>\$ 7,857</u>	<u>\$ 5,853</u>

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

	2010	2009
Impaired loans with related allowance	\$10,413	\$14,266
Impaired loans with no related allowance	47,387	18,843
Total impaired loans	<u>57,800</u>	<u>33,109</u>
Allowance on impaired loans	<u>\$ 3,800</u>	<u>\$ 3,968</u>

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

	2010	2009
Average impaired loans	\$ 40,376	\$ 15,322
Interest income recognized on impaired loans	637	36

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the nine months ended September 30,	
	2010	2009
Pension	\$ 985	\$1,007
401(k)	94	96
Other postretirement benefits	134	125
Total	<u>\$ 1,213</u>	<u>\$1,228</u>

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

	Actual YTD Through 9/30/10	Projected Contributions For Remainder of 2010	Projected Total Contributions 2010
Pension	\$ -	\$1,111	\$1,111
Other postretirement benefits	67	26	93
Total	<u>\$ 67</u>	<u>\$1,137</u>	<u>\$1,204</u>

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

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

NOTE 4 – NOTES PAYABLE TO AGFIRST FARM CREDIT BANK

The Association's indebtedness to the Bank represents borrowings by the Association primarily 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 line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which for 2009 included borrowing base margin, earnings and capital covenants. The Association failed to meet its earnings covenant at December 31, 2009. The default allows the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank has approved a temporary waiver of the default and allowed the Association to operate under a special credit arrangement pursuant to its GFA through December 31, 2010. At September 30, 2010, the Association was also in violation of the borrowing base margin of the GFA as well as of the earnings covenant of the special credit arrangement. The Bank has approved a waiver of these defaults and continued the extension of the existing special credit arrangement through December 31, 2010 to allow for development of a plan to address the defaults. The Association has continued to perform all other obligations under the special credit arrangement.

NOTE 5 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of standby letters of credit, 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 has no Level 1 assets or liabilities measured at fair value on a recurring basis at September 30, 2010.

Level 2

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

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities 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 September 30, 2010 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other property owned is classified as a Level 3 asset at September 30, 2010. 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 September 30, 2010 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	September 30, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 35	\$ 35
Total Liabilities	\$ -	\$ -	\$ 35	\$ 35

	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 22	\$ 22
Total Liabilities	\$ -	\$ -	\$ 22	\$ 22

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

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 22
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	13
Transfers in and/or out of level 3	-
Balance at September 30, 2010	\$ 35

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 25
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	-
Transfers in and/or out of level 3	-
Balance at September 30, 2009	\$ 25

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

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

	September 30, 2010				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 6,613	\$ 6,613	\$ (7,778)
Other property owned	\$ -	\$ -	\$ 7,406	\$ 7,406	\$ (1,778)

	December 31, 2009				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 16,628	\$ 16,628	\$ (4,795)
Other property owned	\$ -	\$ -	\$ 5,403	\$ 5,403	\$ (232)

NOTE 6 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

	September 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	\$ 23	\$ 23	\$ 68	\$ 68
Loans, net of allowance	\$ 398,494	\$ 399,405	\$ 453,625	\$ 455,728
Tobacco Buyout SIIC	\$ 10,088	\$ 10,622	\$ 12,320	\$ 13,074
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 366,091	\$ 370,162	\$ 412,679	\$ 416,707

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 book value of accrued interest, which has been included in the carrying amount of loans, approximates its fair value.

- C. **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. 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 1.86 percent of the issued stock of the Bank as of September 30, 2010 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.0 billion and shareholders' equity totaled \$2.0 billion. The Bank's earnings were \$307.2 million during the first nine months of 2010.

In addition, the Association has an investment of \$2,440 related to other Farm Credit institutions.

- D. **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.

The book value of accrued interest, which has been included in the carrying amount of notes payable, approximates its fair value.

- E. **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.
- F. **Tobacco Buyout SIIC:** Fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.

NOTE 7 – MERGER ACTIVITY

In August 2010, the Boards of Directors of Farm Credit of North Florida, ACA (NF), Farm Credit of South Florida, ACA (SF), and Farm Credit of Southwest Florida, ACA (SWF) (collectively referred to as the "Three Merger Associations") approved a proposed Plan of Merger ("Merger"), where NF and SWF would merge with and into SF. The Merger has been approved by AgFirst and has received preliminary approval from the Farm Credit Administration (FCA). The Merger will be submitted to shareholders of the Three Merger Associations for their review and approval. Pending shareholder approval, the Merger is anticipated to be effective January 1, 2011.

NOTE 8 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and except for the merger activity discussed in Note 7 above, has determined there are no other subsequent events requiring disclosure through November 5, 2010, which is the date the financial statements were issued.