

THIRD QUARTER 2010

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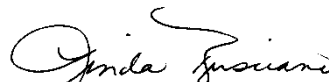
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CERTIFICATION

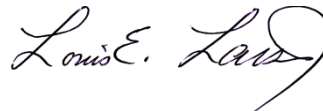
The undersigned certify that we have reviewed the September 30, 2010 quarterly report of Farm Credit of South Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Don Rice
Chief Executive Officer



Linda Rusciano
Chief Financial Officer



Louis E. Larson, Jr.
Chairman of the Board

November 5, 2010

Farm Credit of South 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 Consolidate 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.



Don Rice
Chief Executive Officer



Linda Rusciano
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 South Florida, ACA, (Association) for the period ended 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 citrus, vegetables, sugar, cattle, dairy, nurseries and tropical fruits. During the period of 2002 through 2007, the Association's territory witnessed a rapid appreciation of real estate values followed by a significant decline since the summer of 2007, leaving the South Florida real estate market depressed. The overall volume of sales transactions has declined significantly, and recently, sellers have begun to reduce prices hoping to attract a buyer. Land prices in much of the territory have declined 30-50% and the South Florida housing market continues to have one of the highest foreclosure rates in the country.

In addition to the volatile real estate market, the Association's territory was impacted by hurricanes in 2004 and 2005. These storms severely impacted our nursery growers. Most of them had collateral and/or crop insurance that helped cover their losses. The loss of inventory from these storms, coupled with higher demand related to housing growths during those periods, led to increased production and expansion in anticipation of higher sales in 2007. Subsequently, the real estate market decline, water restrictions imposed as a result of drought, and the general economic recession resulted in a significant reduction in outside landscape plant sales and oversupply of product. Today, growers continue to remain stressed finding it necessary to adjust their operations to bring costs in line with lower sales and reductions in prices. The 2010 out-of-state spring sales were better than 2009, but in-state sales remain poor. Demand for landscape products and field grown trees continue to be depressed due to the economic condition of the housing market. There has been a

pickup in demand for fall material. The amount of product available is less and sizes are smaller due to the reduction in planting over the past two years. Many growers have realized their trees will be too large when the industry recovers and have begun to destroy existing inventory and replant. Indoor tropical foliage and blooming plant sales have fared somewhat better but the general economic recession has significantly reduced consumption of these as a highly optional and impulsive consumer purchase.

The 2009-10 citrus crop was smaller than last season and the higher prices received resulted in the majority of growers having a more profitable year. The 2010-11 crop is maturing slower than average due to a late bloom, and fruit size is smaller. Crop condition is good and appearance is very good due to the dry season. Current fall fruit contract prices are at profitable levels. Citrus canker and citrus greening continue to plague growers and continue to severely impact citrus acreage throughout the state. Fighting these diseases has materially increased the cost of production.

Cattle prices are currently in the mid \$.95/lb range and are projected in the \$.85-.95/lb range during the next twelve months. Exports of beef currently exceed imports. Lower cattle numbers has increased demand for feeders and the increased demand for cheaper cuts of beef has resulted in higher prices for cull cows. This has also helped the dairy farmers with replacements. The oversupply of milk has fallen which has helped milk prices. Milk prices for 2009 averaged \$17.08/cwt and are currently at \$21+/-cwt. Prices are expected to average \$20/cwt for 2010. Feed costs are increasing due to higher grain prices and will negatively impact profitability until milk prices can be increased to cover the additional input costs. Presently, most dairies are showing a profit.

The 2009-10 sugarcane crop was impacted by winter freezes which resulted in lower yields. Prices were strong for the 2009-10 crop. Crop quality is good and the current market price is in the \$.35 range for the 2010-11 crops. Futures prices for sugar are at record highs and this segment of the portfolio should perform extremely well. The possibility exists that a loss in volume could occur as sugar farmers, with excess cash, simply prepay debt to utilize cash.

The 2010 winter corn in the Glades and Homestead was lost due to a freeze. Bean and winter squash were also heavily damaged or destroyed. Surviving crops saw record prices with peppers at \$30/ct, beans \$45/ct, squash \$25/ct, and tomatoes \$45/ct, which resulted in most growers having a profitable

year. The 2010-11 vegetable crop is now being planted and there appears to be a great deal of optimism about the year. There appears to be no material reduction in acreage despite the poor production last season.

The gross loan volume of the Association as of September 30, 2010, was \$558,694, a decrease of \$30,349 as compared to \$589,043 at December 31, 2009. Net loans outstanding at September 30, 2010, were \$548,736 as compared to \$577,080 at December 31, 2009, a decrease of \$28,344 or 4.91 percent. Net loans accounted for 95.16 percent of total assets at September 30, 2010, as compared to 94.41 percent of total assets at December 31, 2009. The decrease in both gross and net loan volume during the period is primarily attributed to the movement of impaired loans to nonaccrual status.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to decline but remains at an acceptable level and credit administration is satisfactory. Nonaccrual loans increased to \$46,131 from the \$23,864 balance at December 31, 2009. This increase is the result of thirty-two loans being moved to nonaccrual status during the period, offset by two additional properties transferred to other property owned, after being acquired through foreclosure.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2010, was \$9,958 compared to \$11,963 at December 31, 2009. This decrease is the result of a \$6,900 provision for loan loss booked as of September 30, 2010 and \$104 in recoveries offset by \$9,009 charge-offs recorded on loans transferred to nonaccrual or other property owned. Management considers the current level of allowance adequate to cover additional possible losses. The ratio of the allowance for loan losses to gross loans at September 30, 2010 was 1.78 percent.

RESULTS OF OPERATIONS

For the three months ended September 30, 2010

The Association recorded a net loss for the three months ended September 30, 2010 of \$600 as compared to net income of \$2,093 for the same period in 2009. This \$2,693 decrease is primarily attributed to a \$4,300 provision for loan losses during the period. Additional factors impacting this difference was a decrease in net interest income and noninterest income offset by decreases in noninterest expense.

Net interest income was \$3,809 as of September 30, 2010 as compared to \$3,956 during the same period in 2009. The increase in net interest income represents a 3.72 percent increase when compared to the same period last year. The decrease is attributed to reversal of interest accrued on loans transferred to nonaccrual status during the period. Net interest income after provision for loan losses was \$(491) as of

September 30, 2010 as compared to \$2,456 at September 30, 2009. This decline is a result of an increase in provision for loan losses of \$4,300 compared to \$1,500 for the same period in 2009.

Noninterest income for the three months ended September 30, 2010, totaled \$1,766 as compared to \$1,874 for the same period of 2009, a decrease of \$108 or 5.76 percent. This decrease is attributed primarily to decreases in fees earned for financially related services of \$166, other noninterest income of \$52, equity in earnings of other Farm Credit institutions of \$64, and losses on other property owned of \$45. These declines in noninterest income were offset by a \$219 increase in loan fees.

Noninterest expense for the three months ended September 30, 2010, decreased \$362 or 16.18 percent compared to the same period of 2009. The primary reasons for the decrease in noninterest expense is attributed to \$295 reduction in salaries and employee benefits and \$171 decrease in the Farm Credit Insurance Fund premium. The decreases were offset by increases of \$18 in occupancy and equipment expense and \$86 in other operating expense.

For the nine months ended September 30, 2010

Net income for the nine months ended September 30, 2010, totaled \$5,355 compared to \$6,557 for the same period in 2009, a decrease of \$1,202 or 18.33%. This decrease is primarily the result of a \$1,400 increase in the provision to the allowance for loan losses, as compared to the same period in 2009. Net interest income increased \$119 for the nine months ended September 30, 2010, as compared to the same period in 2009. This increase is attributed to increases in net interest margin on new loans and loans repriced during the period. Net interest income after provision for the allowance declined during the period due to the additional provisions recorded.

Noninterest income for the nine months ended September 30, 2010, totaled \$5,990 as compared to \$6,576 for the same period of 2009, a decrease of \$586 or 8.91%. This decrease is attributed to a significant increase in losses on other property owned of \$587 and decreases of \$403 in financially related services, \$232 in other noninterest income, and \$47 in loan fees. These declines were offset by increases in equity earnings from AgFirst Farm Credit Bank of \$112, and a \$571 insurance premium refund as explained below.

Noninterest expense for the nine months ended September 30, 2009, decreased \$665 compared to the same period of 2009. The primary reasons for the decrease in noninterest expense were decreases in Farm Credit Insurance Fund premium of \$503 and salaries, employee benefits of \$307 and \$10 in occupancy and equipment expense offset by \$155 increase in other operating expense.

The Association recorded \$571 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The amount is

reflected in Noninterest Income on the Consolidated Statements of Operations. 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.

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. These 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 \$449,192 as compared to \$487,064 at December 31, 2009. The decrease during the period of \$37,872 is primarily attributed to the decrease in the loan portfolio and fluctuations in the usage of borrower SmartCash accounts. SmartCash accounts, a voluntary additional conditional payment fund, which are offset against the related loan outstanding in the portfolio, can influence fluctuations in volume and notes payable with the Bank. SmartCash balances at September 30, 2010 were \$7,244 as compared to \$8,231 at December 31, 2009. Additional SmartCash funds, held in Other Liabilities against commitment balances totaled \$5,181 as of September 30, 2010 as compared to \$2,400 at year-end.

CAPITAL RESOURCES

Total members' equity at September 30, 2010, increased to \$116,459 from the December 31, 2009 total of \$110,639. The increase is primarily attributed to an increase in retained earnings during the period.

Total capital stock and participation certificates were \$3,103 on September 30, 2010, compared to \$3,132 on December 31, 2009. This decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business and new loans being capitalized at new lower regulatory levels.

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 17.22 percent and 17.22 percent, respectively, and the permanent capital ratio was 17.26 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 (561)-965-9001, or writing Linda Rusciano, CFO, Farm Credit of South Florida, ACA, P. O. Box 213069, Royal Palm Beach, FL 33421, or accessing the website, www.farmcreditsfl.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 South Florida, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2010	December 31, 2009
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash	\$ 428	\$ 3,670
Investment securities:		
Held to maturity (fair value of \$2,115 and \$2,598 respectively)	2,078	2,573
Loans	558,694	589,043
Less: allowance for loan losses	9,958	11,963
Net loans	548,736	577,080
Accrued interest receivable	2,686	2,832
Investment in other Farm Credit institutions	8,752	8,679
Premises and equipment, net	5,404	5,607
Other property owned	1,793	1,749
Due from AgFirst Farm Credit Bank	2,724	4,398
Other assets	4,021	4,650
Total assets	\$ 576,622	\$ 611,238
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 449,192	\$ 487,064
Accrued interest payable	972	1,117
Patronage refund payable	198	4,161
Advanced conditional payments	5,181	2,400
Other liabilities	4,620	5,857
Total liabilities	460,163	500,599
Commitments and contingencies		
Members' Equity		
Protected borrower equity	2,462	2,475
Capital stock and participation certificates	641	657
Retained earnings		
Allocated	24,871	25,239
Unallocated	88,485	82,268
Total members' equity	116,459	110,639
Total liabilities and members' equity	\$ 576,622	\$ 611,238

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

Farm Credit of South 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				
Investment securities	\$ (19)	\$ 24	\$ 48	\$ 45
Loans	6,851	7,548	21,362	23,416
Total interest income	6,832	7,572	21,410	23,461
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	3,023	3,616	9,467	11,637
Net interest income	3,809	3,956	11,943	11,824
Provision for loan losses	4,300	1,500	6,900	5,500
Net interest income (loss) after provision for (reversal of allowance for) loan losses	(491)	2,456	5,043	6,324
Noninterest Income				
Loan fees	824	605	2,072	2,119
Fees for financially related services	9	175	620	1,023
Equity in earnings of other Farm Credit institutions	881	945	3,229	3,117
Gains (losses) on other property owned, net	(42)	3	(704)	(117)
Insurance Fund refund	—	—	571	—
Other noninterest income	94	146	202	434
Total noninterest income	1,766	1,874	5,990	6,576
Noninterest Expense				
Salaries and employee benefits	1,245	1,540	3,977	4,284
Occupancy and equipment	139	121	394	404
Insurance Fund premium	63	234	188	691
Other operating expenses	428	342	1,119	964
Total noninterest expense	1,875	2,237	5,678	6,343
Income (loss) before income taxes	(600)	2,093	5,355	6,557
Provision for income taxes	—	—	—	—
Net income (loss)	\$ (600)	\$ 2,093	\$ 5,355	\$ 6,557

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

Farm Credit of South Florida, ACA
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

<i>(dollars in thousands)</i>	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2008	\$ 2,538	\$ 697	\$ 22,550	\$ 79,342	\$ 105,127
Net income				6,557	6,557
Protected borrower equity retired	(19)				(19)
Capital stock/participation certificates issued/(retired), net		(35)			(35)
Patronage distribution adjustment			(151)	171	20
Balance at September 30, 2009	\$ 2,519	\$ 662	\$ 22,399	\$ 86,070	\$ 111,650
Balance at December 31, 2009	\$ 2,475	\$ 657	\$ 25,239	\$ 82,268	\$ 110,639
Net income				5,355	5,355
Protected borrower equity retired	(13)				(13)
Capital stock/participation certificates issued/(retired), net		(16)			(16)
Patronage distribution adjustment			(368)	862	494
Balance at September 30, 2010	\$ 2,462	\$ 641	\$ 24,871	\$ 88,485	\$ 116,459

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

Notes to the Consolidated Financial Statements

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

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

The accompanying financial statements include the accounts of Farm Credit of South 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 — INVESTMENT SECURITIES

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

	September 30, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 2,078	\$ 37	\$ -	\$ 2,115	2.04%

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 2,573	\$ 27	\$ (2)	\$ 2,598	1.98%

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

	September 30, 2010		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	719	723	2.12
After five years through ten years	1,359	1,392	2.00
After ten years	-	-	-
Total	\$ 2,078	\$ 2,115	2.04%

	December 31, 2009		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	-	-	-
After five years through ten years	865	864	1.81
After ten years	1,708	1,734	2.07
Total	\$ 2,573	\$ 2,598	1.98%

The Association's investments consist 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. ABSs 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 September 30, 2010 are considered eligible under FCA regulatory guidelines.

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 Association had no investments that have been in a continuous unrealized loss position at September 30, 2010.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment

structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes.

Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment as the unrealized losses resulted primarily from non-credit related factors. The Association has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, 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 at September 30, 2010.

NOTE 3 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,	
	2010	2009
Balance at beginning of period	\$11,963	\$ 8,051
Provision for (reversal of) loan losses	6,900	5,500
Charge-offs	(9,009)	(1,895)
Recoveries	104	455
Balance at end of period	<u>\$ 9,958</u>	<u>\$12,111</u>

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

	2010	2009
Impaired loans with related allowance	\$15,672	\$14,617
Impaired loans with no related allowance	30,450	13,224
Total impaired loans	<u>46,122</u>	<u>27,841</u>
Allowance on impaired loans	<u>\$ 1,552</u>	<u>\$ 4,966</u>

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

	2010	2009
Average impaired loans	\$ 33,954	\$ 18,228
Interest income recognized on impaired loans	110	78

NOTE 4 – 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	\$ 649	\$ 799
401(k)	106	111
Other postretirement benefits	76	65
Total	<u>\$ 831</u>	<u>\$ 975</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	\$ -	\$ 733	\$ 733
Other postretirement benefits	35	14	49
Total	<u>\$ 35</u>	<u>\$ 747</u>	<u>\$ 782</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 Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2010.

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

NOTE 5 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of 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 September 30, 2010 consist of assets held in trust funds related to deferred compensation 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 and 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 also 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
Assets:				
Assets held in trust funds	\$ 1,598	\$ -	\$ -	\$ 1,598
Total Assets	\$ 1,598	\$ -	\$ -	\$ 1,598
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 211	\$ 211
Total Liabilities	\$ -	\$ -	\$ 211	\$ 211

December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 1,473	\$ -	\$ -	\$ 1,473
Total Assets	\$ 1,473	\$ -	\$ -	\$ 1,473
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 256	\$ 256
Total Liabilities	\$ -	\$ -	\$ 256	\$ 256

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	\$ 256
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(45)
Transfers in and/or out of level 3	-
Balance at September 30, 2010	<u>\$ 211</u>

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 191
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	129
Transfers in and/or out of level 3	-
Balance at September 30, 2009	<u>\$ 320</u>

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				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 12,638	\$ 12,638	\$ (5,620)
Other property owned	\$ -	\$ -	\$ 1,520	\$ 1,520	\$ (613)

	December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 9,817	\$ 9,817	\$ (6,901)
Other property owned	\$ -	\$ -	\$ 1,893	\$ 1,893	\$ (123)

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	\$ 428	\$ 428	\$ 3,670	\$ 3,670
Loans, net of allowance	\$ 551,409	\$ 555,363	\$ 579,896	\$ 585,457
Investment securities	\$ 2,091	\$ 2,115	\$ 2,589	\$ 2,598
Assets held in trust funds	\$ 1,598	\$ 1,598	\$ 1,473	\$ 1,473
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 450,164	\$ 452,680	\$ 488,181	\$ 492,259

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 Securities:** Fair value is primarily based upon prices obtained from a third party valuation service.
- 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. 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 1.87 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 \$404 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.

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

- 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 5 for discussion of estimation of fair value for this instrument.

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.