MidAtlantic Farm Credit, ACA

THIRD QUARTER 2010

TABLE OF CONTENTS

CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2010 quarterly report of MidAtlantic Farm Credit, 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. Robert Frazee
Chief Executive Officer

John E. Wheeler, Jr.
Chief Financial Officer

Gary L. Grossnickle
Chairman of the Board

November 5, 2010

MidAtlantic Farm Credit, 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. Robert Frazee
Chief Executive Officer

John E. Wheeler, Jr.
Chief Financial Officer

November 5, 2010

MidAtlantic Farm Credit, ACA

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 MidAtlantic Farm Credit, ACA (Association) for the period ended September 30, 2010. On November 25, 2008, the stockholders of Valley Farm Credit, ACA and MidAtlantic Farm Credit, ACA approved a merger (Merger) to merge Valley into MidAtlantic; the FCA granted its final approval of the Merger on December 31, 2008 and the Merger was effective on December 31, 2008. The comments contained in this report 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 the financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio encompasses a well diversified range of agricultural commodities, with cash grains, poultry and dairy representing the largest segments. In addition, the Association provides a significant amount of loans to lessors of agricultural real estate. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, impacts the level of dependency on any particular commodity.

Gross loans at September 30, 2010 totaled $2,259,327 compared to $2,288,344 at December 31, 2009, decreasing $29,017 (1.27 percent) during the first nine months. The Association's allowance for loan losses of $22,327 increased $1,307 (6.22 percent) during the first nine months of 2010 resulting in net loans (gross loans less allowance for loan losses) of $2,237,000 and $2,267,324 at September 30, 2010 and December 31, 2009, respectively. Nonaccrual loans increased $32,515 (66.79 percent) from $48,683 at December 31, 2009 to $81,198 at September 30, 2010 resulting in an increase in the ratio of nonaccrual loans to total loans from 2.13 percent to 3.59 percent. The significant increase in nonaccrual loans is primarily related to an account in the timber industry.

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.

Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. A provision for loan losses of $1,000 was recorded in the third quarter of 2010, that after giving effect to the net impact of charge-offs in excess of recoveries, increased the Association's allowance $1,307 as of September 30, 2010. The allowance for loan losses represented 0.99 percent and 0.92 percent of total loans at September 30, 2010 and December 31, 2009, respectively. See also Note 2 of "Notes to the Consolidated Financial Statements".

RESULTS OF OPERATIONS

For the three months ended September 30, 2010

Net income for the three months ended September 30, 2010 totaled $12,949, an increase of $6,166 (90.90 percent) compared to the three months ended September 30, 2009. Major changes in the components of net income are identified as follows:

- Net interest income increased $1,472 (10.29 percent) for the quarter ended September 30, 2010 compared to the same period in 2009. The increase in net interest income is primarily attributable to (a) an increased portfolio margin attributable to the decrease in the Association's cost of funds which occurred over the past year, and (b) a $230 increase attributable to the increase in interest income recognized from nonaccrual volume. This was partially offset by a $24 million decrease in loan volume at September 30, 2010 as compared to September 30, 2009 and a $38.6 million increase in nonaccruing loans from September 30, 2009.

- The risks identified in the Association's loan portfolio required a provision for loan losses of $1,000 to be recorded in the third quarter of 2010 as compared to $4,500 in the third quarter of 2009. The Association's delinquent loans increased from, 2.13 percent at December 31, 2009 to 3.59 percent of the portfolio at September 30, 2010. See also

Note 2 of "Notes to the Consolidated Financial Statements".

- At September 30, 2010 and 2009, the Association accrued an estimated patronage receipt (reported as "Equity in earnings of other Farm Credit institutions" on the Consolidated Statements of Income) of $3,731 and $3,861, respectively, which is based on third quarter operations only; management anticipates additional income for the fourth quarter in 2010. Since this income from AgFirst Farm Credit Bank (the Bank) is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income.

- Total Noninterest income increase in the third quarter of 2010 of $158 (2.66 percent) included an increase in (a) Loan fees of $79, (b) Gains on sales of rural home loans of $318 and (c) other noninterest income of $27 which was offset by a decrease in (d) Fees from financially related services of $119 and (e) Losses on other property owned of $17.

- Noninterest expense for the third quarter of 2010 was $7,928 as compared to $8,964 for the third quarter of 2009 or a decrease of $1,036 (11.56 percent). The decrease of $320 (5.27 percent) for Salaries and employee benefits is primarily the result of decreased staffing which occurred during 2009 in connection with the successful merger with the former Valley Association. Pension expenses related to the defined benefit plan have also declined for 2010 as compared to 2009. See also Note 3 of "Notes to the Consolidated Financial Statements".

  Insurance fund premium expense decreased $704 (73.64 percent) resulting from a 2.59 percent decrease in the average daily balance loan portfolio plus the Farm Credit System Insurance Corporation (FCSIC) announcement in June 2010 to decrease the insurance premium for 2010 effective January 1, 2010. In general, the insurance premium was .2 percent of loans in 2009 and is .05 percent in 2010. The lower rate is anticipated to prevail for the remainder of 2010.

  Occupancy and equipment and Other operating expenses decreased $12 (.6 percent) from $1,933 to $1,921.

For the nine months ended September 30, 2010

Net income for the nine months ended September 30, 2010 totaled $37,612 or $16,595 (78.96 percent) greater than the nine months ended September 30, 2009. Major changes in the components of net income are identified as follows:

- The increase in net interest income of $4,729 (11.36 percent) is primarily attributable to a $3.8 million favorable increase in net margin, a $.7 million increase in interest income recognition on non-accrual volume, and a $.2 million increase in earnings credit on the Association's equity due to the increase in the Association's Total members' equity.

- Charge-offs and risks identified in the Association's loan portfolio required a provision for loan losses of $6,200 to be recorded in the first nine months of 2010 as compared to a $9,000 provision in the first nine months of 2009. See also Note 2 of "Notes to the Consolidated Financial Statements".

- At the period ended September 30, 2010, the Association accrued an estimated patronage receipt of $11,338 as compared to $11,420 at September 30, 2009. This accrual is based on the first three quarters operations only; management anticipates additional income for the fourth quarter in 2010. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. In addition, the Association received $1,202 for a Special Patronage which was declared and paid by the Bank in June 2010.

- During the first quarter of 2010, the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations, had assets exceeding the secure base amount as defined by the Farm Credit Act. As a result of the excess assets, FCSIC made certain distributions to Farm Credit System Banks and certain Associations, MidAtlantic's share of the distribution, which is nonrecurring, was $3,753 and is recorded as Insurance Fund refund within the Noninterest Income section of the Consolidated Statements of Income.

- Noninterest income included a decrease in fee income of $273 as new loan activity and secondary market origination have slowed considerably this year. As fees are common practice in a marketplace, the Association utilizes this vehicle to help achieve an acceptable return on its capital.

The Association also received additional income from its crop insurance program in 2010 based on claims experience and recognized a net increase of $80 from Other property owned and Sale of rural home loans.

- Noninterest expense decreased $3,737 (13.85 percent) for the first nine months of 2010 as compared to 2009. The year-to-date decrease for Salaries and employee benefits of $1,427 (7.89 percent) includes a $680 retirement and other postretirement benefits favorable variance. The magnitude of this difference as compared to 2009 is expected to continue throughout 2010. The remaining Salaries and employee benefits favorable variance of $747 is primarily attributable to staff reductions attributable to the Merger, net of 2010 salary adjustments.

  Insurance fund premium expense decreased $2,051 (73.35 percent) resulting from the FCSIC announcement in June 2010 to decrease the insurance premium for 2010 effective January 1, 2010. In general, the insurance premium was .2 percent of loans in 2009 and is .05 percent of loans in 2010.

  Occupancy and equipment and Other operating expenses decreased $259 from $6,087 to $5,828 which includes $147 reduction in Director's related expenses and various expense reductions principally attributable to the previously mentioned staff reduction resulting from the Merger.

- The Provision for income taxes in 2009 includes the impact of a deferred tax asset valuation allowance.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with 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 Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The Association utilizes the variable rate note 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 $1,892,409 compared to $1,944,081 at December 31, 2009. This decrease during the period of $51,672 (2.66 percent) corresponds to the decrease in the Association's loan volume, receipt of prior year Bank patronage, current year net cash generated from operating activities and offset by patronage payments to stockholders.

CAPITAL RESOURCES

Members' equity at September 30, 2010 totaled $397,182 an increase of $26,781 (7.23 percent) compared to total members' equity of $370,401 at December 31, 2009. Net income of $37,612 for the nine months ended September 30, 2010 and net member capital stock/participation certificates issued of $97, an estimated cash patronage distribution accrual for the first nine months of 2010 totaling $10,500, and patronage distribution adjustment and retained earnings retired of $467 account for the change.

FCA regulations require that all Farm Credit institutions maintain a minimum permanent capital ratio of 7.0 percent and total surplus and core surplus ratios equal to 3.5 percent. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. At September 30, 2010, the Association exceeded minimum regulatory standard for all of the ratios as permanent capital, total surplus and core surplus ratios equaled 15.17 percent, 14.71 percent and 14.33 percent, respectively.

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.

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' annual and quarterly reports are also available upon request free of charge by calling 1-800-333-7950, or writing John E. Wheeler, Jr., Chief Financial Officer, MidAtlantic Farm Credit, ACA, P.O. Box 770, Westminster, MD 21158-0770, or accessing the website, www.mafc.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.

MidAtlantic Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	**September 30, 2010**	**December 31, 2009**
	(unaudited)	*(audited)*
Assets		
Cash	$ 1,857	$ 1,651
Loans	2,259,327	2,288,344
Less: allowance for loan losses	22,327	21,020
Net loans	2,237,000	2,267,324
Loans held for sale	2,866	—
Accrued interest receivable	16,377	13,725
Investment in other Farm Credit institutions	30,842	30,673
Premises and equipment, net	13,982	14,345
Other property owned	1,102	1,008
Due from AgFirst Farm Credit Bank	11,349	17,442
Other assets	8,216	11,847
Total assets	$ 2,323,591	$ 2,358,015
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,892,409	$ 1,944,081
Accrued interest payable	4,894	5,491
Patronage refund payable	10,564	8,116
Allocated surplus payable	—	6,915
Other liabilities	18,542	23,011
Total liabilities	1,926,409	1,987,614
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	11,329	11,232
Retained earnings		
Allocated	167,874	167,428
Unallocated	218,363	192,164
Accumulated other comprehensive income (loss)	(384)	(423)
Total members' equity	397,182	370,401
Total liabilities and members' equity	$ 2,323,591	$ 2,358,015

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Interest Income				
Loans	$ 31,182	$ 32,152	$ 94,795	$ 97,130
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	15,403	17,845	48,424	55,488
Net interest income	15,779	14,307	46,371	41,642
Provision for loan losses	1,000	4,500	6,200	9,000
Net interest income after provision for loan losses	14,779	9,807	40,171	32,642
Noninterest Income				
Loan fees	680	601	1,543	1,816
Fees for financially related services	1,112	1,231	1,729	1,662
Equity in earnings of other Farm Credit institutions	3,731	3,861	12,540	11,420
Gains (losses) on other property owned, net	(22)	(5)	(92)	(5)
Gains (losses) on sale of rural home loans, net	462	144	890	723
Insurance Fund refund	–	–	3,753	–
Other noninterest income	135	108	388	396
Total noninterest income	6,098	5,940	20,751	16,012
Noninterest Expense				
Salaries and employee benefits	5,755	6,075	16,665	18,092
Occupancy and equipment	610	624	1,837	1,911
Insurance Fund premium	252	956	745	2,796
Other operating expenses	1,311	1,309	3,991	4,176
Total noninterest expense	7,928	8,964	23,238	26,975
Income before income taxes	12,949	6,783	37,684	21,679
Provision for income taxes	–	–	72	662
Net income	$ 12,949	$ 6,783	$ 37,612	$ 21,017

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2008	$ 11,576	$ 156,869	$ 185,520	$ (405)	$ 353,560
Comprehensive income					
Net income			21,017		21,017
Employee benefit plans adjustments				28	28
Total comprehensive income					21,045
Capital stock/participation certificates issued/(retired), net	(424)				(424)
Patronage distribution					
Cash			(5,311)		(5,311)
Retained earnings retired		(5)			(5)
Patronage distribution adjustment		407	(405)		2
Balance at September 30, 2009	$ 11,152	$ 157,271	$ 200,821	$ (377)	$ 368,867
Balance at December 31, 2009	$ 11,232	$ 167,428	$ 192,164	$ (423)	$ 370,401
Comprehensive income					
Net income			37,612		37,612
Employee benefit plans adjustments				39	39
Total comprehensive income					37,651
Capital stock/participation certificates issued/(retired), net	97				97
Patronage distribution					
Cash			(10,500)		(10,500)
Retained earnings retired		(193)			(193)
Patronage distribution adjustment		639	(913)		(274)
Balance at September 30, 2010	$ 11,329	$ 167,874	$ 218,363	$ (384)	$ 397,182

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 MidAtlantic Farm Credit, 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 accounting principles generally accepted in the United States (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 4).

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	$21,020	$16,983
Provision for (reversal of) loan losses	6,200	9,000
Charge-offs	(5,127)	(5,974)
Recoveries	234	411
Balance at end of period	$22,327	$20,420

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

	2010	**2009**
Impaired loans with related allowance	$45,021	$27,202
Impaired loans with no related allowance	36,593	27,655
Total impaired loans	81,614	54,857
Allowance on impaired loans	$12,779	$ 8,693

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

	2010	**2009**
Average impaired loans	$ 73,829	$ 48,442
Interest income recognized on impaired loans	1,033	303

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	$ 3,817	$ 4,498
401(k)	367	354
Other postretirement benefits	573	603
Total	$ 4,757	$ 5,455

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	$ 9	$ 4,209	$ 4,218
Other postretirement benefits	337	232	569
Total	$ 346	$ 4,441	$ 4,787

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 – 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 disclosures about fair values 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 and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at 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 could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at 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	$ 541	$ –	$ –	$ 541
Total Assets	$ 541	$ –	$ –	$ 541
Liabilities:				
Standby letters of credit	$ –	$ –	$ 248	$ 248
Total Liabilities	$ –	$ –	$ 248	$ 248

	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	$ 519	$ –	$ –	$ 519
Total Assets	$ 519	$ –	$ –	$ 519
Liabilities:				
Standby letters of credit	$ –	$ –	$ 322	$ 322
Total Liabilities	$ –	$ –	$ 322	$ 322

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	$ 322
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	(74)
Transfers in and/or out of Level 3	–
Balance at September 30, 2010	$ 248

	Standby Letters Of Credit
Balance at January 1, 2009	$ 298
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	59
Transfers in and/or out of Level 3	–
Balance at September 30, 2009	$ 357

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	$ –	$ –	$ 32,254	$ 32,254	$ (8,641)
Other property owned	$ –	$ –	$ 971	$ 971	$ (36)

	December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 19,027	$ 19,027	$ (8,217)
Other property owned	$ –	$ –	$ 1,008	$ 1,008	$ (12)

NOTE 5 — 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	$ 1,857	$ 1,857	$ 1,651	$ 1,651
Loans, net of allowance	$2,253,377	$ 2,279,104	$ 2,281,049	$ 2,309,965
Assets held in trust funds	$ 541	$ 541	$ 519	$ 519
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 1,897,303	$ 1,922,521	$ 1,949,572	$ 1,972,595

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:** Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 7.64 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 $523 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. **Assets Held in Trust Funds:** See Note 4 for discussion of estimation of fair value for this instrument.

NOTE 6 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through November 5, 2010, which is the date the financial statements were issued.