Lending support to rural America™

Puerto Rico Farm Credit, ACA

2009 Annual Report

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Management

William A. Garrahan .... President and Chief Executive Officer
Sonia Arteaga .... Vice President and Chief Credit Officer
Bruce M. Hoffman .... Vice President/Chief Operating Officer/Chief Financial Officer

Board of Directors

Juan A. Santiago .... Chairman
Felipe Ozonas-Morell .... Vice Chairman
Francisco del Rio .... Second Vice Chairman
Victor Ayala-Benitez .... Director
Damian Rivera .... Director
Carlos A. Rodríguez .... Director
Antonio E. Marichal .... External Director

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Report of Management

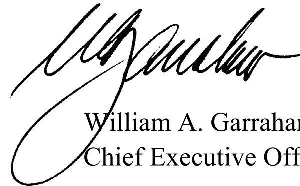
The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Puerto Rico Farm Credit, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

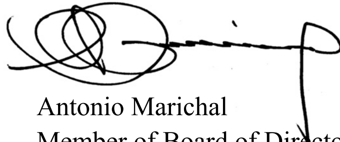
The consolidated financial statements have been examined by independent public auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2009 Annual Report of Puerto Rico 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.

Juan A. Santiago
Chairman of the Board



William A. Garrahan
Chief Executive Officer



Antonio Marichal
Member of Board of Directors
Chairman of the Audit Committee

Bruce M. Hoffman
Chief Financial Officer

March 12, 2010

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2009	2008	2007	2006	2005
Balance Sheet Data					
Cash	$ 162	$ 290	$ 130	$ 132	$ 27
Loans	227,226	260,905	250,019	247,136	277,468
Less: allowance for loan losses	2,720	1,254	330	271	237
Net loans	224,506	259,651	249,689	246,865	277,231
Notes receivable from other Farm Credit institutions	10,000	10,000	—	—	—
Investments in other Farm Credit institutions	3,679	3,517	3,399	3,670	2,864
Other property owned	521	—	73	—	150
Other assets	6,086	6,376	6,392	7,073	4,413
Total assets	$ 244,954	$ 279,834	$ 259,683	$ 257,740	$ 284,685
Notes payable to AgFirst Farm Credit Bank*	$ 187,237	$ 219,092	$ 197,926	$ 197,058	$ 225,635
Accrued interest payable and other liabilities with maturities of less than one year	1,515	3,088	4,767	4,787	4,257
Other liabilities with maturities of greater than one year	1,528	1,385	1,429	2,080	1,940
Total liabilities	190,280	223,565	204,122	203,925	231,832
Capital stock and participation certificates	721	779	819	874	940
Unallocated retained earnings	53,208	54,577	53,880	52,941	51,913
Accumulated other comprehensive income (loss)	745	913	862	—	—
Total members' equity	54,674	56,269	55,561	53,815	52,853
Total liabilities and members' equity	$ 244,954	$ 279,834	$ 259,683	$ 257,740	$ 284,685
Statement of Operations Data					
Net interest income	$ 4,545	$ 5,520	$ 6,493	$ 6,327	$ 6,993
Provision for (reversal of allowance for) loan losses	3,312	926	59	34	—
Noninterest income (expense), net	(2,093)	(1,927)	(2,310)	(2,065)	(3,987)
Net income (loss)	$ (860)	$ 2,667	$ 4,124	$ 4,228	$ 3,006
Key Financial Ratios					
Rate of return on average:					
Total assets	(0.33)%	1.00%	1.62%	1.62%	1.12%
Total members' equity	(1.54)%	4.67%	7.41%	7.73%	5.53%
Net interest income as a percentage of average earning assets	1.93%	2.18%	2.68%	2.53%	2.69%
Net (chargeoffs) recoveries to average loans	(0.755)%	—	—	—	0.015%
Total members' equity to total assets	22.32%	20.11%	21.40%	20.88%	18.57%
Debt to members' equity (:1)	3.48	3.97	3.67	3.79	4.39
Allowance for loan losses to loans	1.20%	0.48%	0.13%	0.11%	0.09%
Permanent capital ratio	17.39%	16.96%	23.48%	24.31%	24.02%
Total surplus ratio	17.06%	16.74%	23.11%	23.90%	23.59%
Core surplus ratio	17.06%	16.74%	23.11%	23.90%	23.59%
Net Income Distribution					
Cash dividends declared/paid	$ —	$ —	$ —	$ —	$ 3,000
Estimated patronage refunds:					
Cash	$ 615	$ 2,000	$ 3,250	$ 3,200	$ —

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

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

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

The Association is a cooperative, which is owned by the members served (also referred to throughout this Annual Report as stockholders or shareholders). The territory served by the Association covers the entire island of Puerto Rico. Refer to Note 1, "Organization and Operations," of the Notes to the Consolidated Financial Statements. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are on the Association's website, ***www.puertoricofarmcredit.com***, or may be obtained upon request free of charge by calling 1-800-981-3323, or writing Bruce M. Hoffman, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from the expectations and predictions due to a number of risks and uncertainties, many of which are beyond the Association's control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States, Puerto Rico and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in the United States and Puerto Rico governments support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies are critical to the understanding of the Association's results of operations and financial position because some accounting policies require the Board and management to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. These policies are critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant Accounting Policies, see Note 2, "Summary of Significant Accounting Policies," of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is management's best estimate of the amount of probable losses existing in and inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which generally considers relevant historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors. Management considers the allowance for loan losses to have been determined in accordance with generally accepted accounting principles appropriate to the periodic process utilized.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

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

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

- *Pensions* — The Bank and its related associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. A discount rate is used to determine the present value of the future benefit obligations.

ECONOMIC CONDITIONS

During 2009, Puerto Rico continued to face its worst economic and fiscal crisis as it went into a third year of economic recession. Additionally, during 2008 and throughout most of 2009 it was established that the U.S. economy was in recession for more than one year, negatively impacted by the banking crisis. There has been significant change in the Association's loan portfolio over the past few years, with the Association buying and selling loan participations. During 2009, the Association continued to target certain segments of the island's agricultural business with hopes of increasing market share; but the recession hindered most marketing efforts. Continued efforts are being made to expand services, increase public knowledge of the Association's services and streamline delivery of products to enhance the loan portfolio.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through various product types.

The gross loan volume of the Association as of December 31, 2009 was $227,226 a decrease of $33,679 or12.91 percent as compared to $260,905 at December 31, 2008 and compared to December 31, 2007 an increase of $10,886 or 4.35 percent. Net loans outstanding (gross loans net of the allowance for loan losses) at December 31, 2009 were $224,506 as compared to $259,651 at December 31, 2008 and $249,689 at December 31, 2007. Net loans accounted for 91.65 percent of total assets on December 31, 2009 as compared to 92.79 percent of total assets on December 31, 2008 and 96.15 percent of total assets on December 31, 2007.

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

Loan Type	12/31/09	12/31/08	12/31/07
Real estate mortgage	56.60%	54.32%	60.80%
Production and intermediate term	18.20	20.21	15.57
Agribusiness:			
Loans to cooperatives	.02	–	–
Processing and marketing	11.54	12.41	11.28
Farm related business	.98	1.67	1.69
Communication	2.20	1.93	.52
Energy	1.26	.77	.80
Rural residential real estate	9.20	8.69	9.34
Total	100.00%	100.00%	100.00%

While the Association makes loans and provides financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, the loan portfolio is diversified. Commodity and industry categories are based upon

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

The major commodities in the Association's loan portfolio are shown below. The predominant commodities on the island were dairy, field crops, and livestock, which constituted 40.2 percent of the entire portfolio at December 31, 2009.

	Percent of Portfolio		
Commodity Group	**2009**	**2008**	**2007**
Participations (net)	30.8%	34.4%	31.7%
Dairy	22.7	21.5	21.0
Livestock (Beef Cattle)	9.5	9.5	10.6
Rural Home	9.2	8.7	9.4
Field Crops (Vegetables)	8.0	8.6	8.2
Fruits	6.2	6.0	5.9
Ornamentals/Nursery	2.7	2.1	3.1
Poultry	2.2	2.4	2.8
Plantains	2.3	2.3	2.7
Coffee	1.5	1.6	1.7
Misc Real Estate	3.4	1.6	1.5
Horses	0.8	0.8	0.9
Other	0.7	0.5	0.6
Total	100.0%	100.0%	100.0%

Repayment ability is closely related to the commodities produced by the Association's borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of island dairy producers. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory. Even though the concentration of participation loans has remained over thirty percent during the past several years, the agricultural enterprise mix of these loans is diversified, as well as the geographic risk. Management and the Board of Directors continue to believe a major factor protecting the balance sheet and income statement is diversification, spreading both geographic and industry concentration risks.

The decrease in gross loan volume for the twelve months ended December 31, 2009 was due to decreases in both the on-island, chartered territory loan portfolio and the participation purchased loan portfolio. Additionally, the Association has participated part of its chartered territory loan portfolio to the Bank for several years. This action has resulted in reductions in the gross loan portfolio of $12,110, $11,572 and $7,971 at December 31, 2009, 2008 and 2007, respectively. The Association did not have any loans sold with recourse.

The Association has experienced minor shifts in the composition of loan assets. The long-term real estate mortgage trend has been upward while the short and intermediate-term loan volume trend has been downward. However, this trend changed during 2008, with longer-term real estate loans decreasing compared to previous years. This was primarily the result of changes in the participation portfolio, which carries shorter maturities related to commercial lending activities. At December 31, 2009, 2008 and 2007 the Association had no one single borrower that comprised more than 10 percent of loan volume or interest income.

During the past several years, the Association has had increased activity in the buying of loan participations, both from within and outside of the System. This provides a means for the Association to spread geographic and credit concentration risks and realize non-patronage sourced interest and fee income, which strengthens the Association's capital position. However, during 2009 this trend reversed as participation loan volume decreased. The following table presents information concerning the Association's participations purchased portfolio at December 31:

Loan Participations	**2009**	**2008**	**2007**
		(dollars in thousands)	
Participations Purchased – FCS Institutions	$ 60,425	$ 65,724	$ 59,448
Participations Purchased – Non-FCS Institutions	11,525	16,349	20,857
Total	$ 71,950	$ 82,073	$ 80,305

As part of the non-FCS participation portfolio, the Association has purchased participation interests in loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing geographic risk and managing surplus funds as allowable under FCA regulations. At December 31, 2009, the balance of these loans (including unamortized premium) was $8,511 compared to $12,672 at December 31, 2008 and $16,594 at December 31, 2007.

MISSION-RELATED INVESTMENTS

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

In October 2005, the FCA authorized AgFirst and the associations of the AgFirst District to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as loans or investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2009, 2008 and 2007, the Association had $973, $1,000 and $1,000, respectively, in Rural America Bonds, included as loans on the Consolidated Balance Sheets.

NOTES RECEIVABLE-OTHER FARM CREDIT INSTITUTIONS

In September 2008, the Association used capital reserves to purchase $10,000 total of fixed rate unsecured subordinated notes issued by two other associations in the District, both notes due in 2018. The notes receivable are subordinate to all other categories of creditors of the issuing associations, including any claims of the Bank and general creditors, but are senior to all classes of shareholders of the issuing associations. The notes receivable are not considered System debt, and thus are not guaranteed by the System and not insured by the Insurance Corporation. Since the notes receivable are only guaranteed by the issuing associations, repayment could be negatively impacted by funding, credit, and/or counterparty risks encountered by the two issuing associations in their business operations.

The notes receivable bear interest at an annual fixed rate of 9.00 percent, payable on the fifteenth day of each month, beginning on October 15, 2008. For the twelve months ended December 31, 2009, the Association recognized $900 as interest income. During the next several years, management projects that the Association will continue to accrue $900 annually as interest income from the notes receivable. For more information related to notes receivable-other Farm Credit Institutions, see Note 5 of the Notes to the Consolidated Financial Statements.

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for real estate mortgage loans of more than $250,000. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

Management reviews the credit quality of the loan portfolio on an ongoing basis as part of the Association's risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- *Acceptable* – Assets are expected to be fully collectible and represent the highest quality.
- *Other Assets Especially Mentioned (OAEM)* – Assets are currently collectible but exhibit some potential weakness.
- *Substandard* – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- *Doubtful* – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- *Loss* – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2009	2008	2007
Acceptable & OAEM	87.86%	87.97%	96.16%
Substandard	12.14	12.03	3.84
Doubtful	–	–	–
Loss	–	–	–
Total	100.00%	100.00%	100.00%

The higher adverse level of the substandard asset quality category during 2009 and 2008 was a direct result of the weaker economies, both in Puerto Rico and the US mainland. Credit quality deterioration for production agriculture was a result of reduced profitability largely driven by higher input costs (fuel, feed, electricity). Additionally, loans tied to housing, either through construction or development, have seen demand plummet and profitability decline resulting in downgrades of the assigned credit risk rating.

NONPERFORMING ASSETS

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

	12/31/09	12/31/08	12/31/07
	(dollars in thousands)		
High-risk Assets			
Nonaccrual loans	$ 19,107	$ 12,626	$ 4,453
Restructured loans	–	–	–
Accruing loans 90 days past due	–	242	–
Total high-risk loans	19,107	12,868	4,453
Other property owned	521	–	73
Total high-risk assets	$ 19,628	$ 12,868	$ 4,526
Ratios			
Nonaccrual loans to total loans	8.41%	4.84%	1.78%
High-risk assets to total assets	8.01%	4.60%	1.74%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. Nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $6,481 or 48.48 percent in 2009. The increase in nonaccrual loans was primarily the result of the transfer of one large beef cattle loan from the chartered territory loan portfolio. Of the $19,107 in nonaccrual loan volume at December 31, 2009, $6,534 or 34.20 percent as compared to $9,170 or 72.63 percent and $300 or 6.74 percent at December 31, 2008 and 2007, respectively, was considered current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

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

Allowance for Loan Losses

The allowance for loan losses at each period end has been considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses was $2,720 at December 31, 2009, as compared with $1,254 and $330 at December 31, 2008 and 2007, respectively.

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

Allowance for Loan Losses Activity:	**2009**	**2008**	**2007**
	(dollars in thousands)		
Balance at beginning of year	$ 1,254	$ 330	$ 271
Charge-offs:			
Real Estate Mortgages	(83)	–	–
Production and intermediate term	(866)	(2)	–
Agribusiness	(897)	–	–
Total charge-offs	(1,846)	(2)	–
Recoveries:			
Total recoveries	–	–	–
Net (charge-offs) recoveries	(1,846)	(2)	–
Provision for (reversal of allowance for) loan losses	3,312	926	59
Balance at end of year	$ 2,720	1,254	$ 330
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.755)%	–%	–%

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

Allowance for Loan Losses by Type	**December 31, 2009**	**2008**	**2007**
	(dollars in thousands)		
Real estate mortgage	$ 283	$ 160	$ 137
Production and intermediate term	44	501	14
Agribusiness	2,330	559	152
Communication	19	11	6
Energy	7	2	4
Rural residential real estate	37	21	17
Total allowance	$ 2,720	$ 1,254	$ 330

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

Allowance for Loan Losses as a Percentage of:	**December 31, 2009**	**2008**	**2007**
Total loans	1.20%	.48%	.13%
Nonperforming loans	14.24%	9.75%	7.41%
Nonaccrual loans	14.24%	9.93%	7.41%

RESULTS OF OPERATIONS

For the year ended December 31, 2009 the Association incurred a net loss from operations which totaled $(860) a decrease of $3,527 as compared to net income of $2,667 for the same period of 2008 and for 2008 a decrease of $1,457 or 35.3 percent as compared to $4,124 for the same period of 2007. Total interest income for the year ended December 31, 2009 was $9,702 a decrease of $4,144 or 29.9 percent as compared to $13,846 for the same period of 2008. Total interest income decreased by $4,551 or 24.7 percent for the period ended December 31, 2008 compared to December 31, 2007. Major components of the change in net income for the past two years are outlined in the following table:

Change in Net Income:	**2009-2008**	**2008-2007**
	(dollars in thousands)	
Net income (prior year)	$ 2,667	$ 4,124
Increase (decrease) in net income due to:		
Interest income	(4,144)	(4,551)
Interest expense	3,169	3,578
Net interest income	(975)	(973)
Provision for loan losses	(2,386)	(867)
Noninterest income	381	13
Noninterest expense	(547)	370
Provision for income taxes	–	–
Total changes in income	(3,527)	(1,457)
Net income/(loss)	$ (860)	$ 2,667

Net Interest Income

Net interest income was $4,545, $5,520 and $6,493 in 2009, 2008 and 2007, respectively. Net interest income from loans was the principal source of earnings for the Association and was impacted by volume, yields on assets and cost of debt. Additionally, net interest income was negatively impacted by the amortization of premium paid to acquire USDA guaranteed loans in the secondary market place. Premium amortization expense was $260, $265 and $483 in 2009, 2008 and 2007, respectively.

However, net interest income was enhanced by the notes receivable from other Farm Credit Institutions. Net interest income from notes receivable was $263 and $70 in 2009 and 2008, respectively. The effects of changes in average volume and interest rates on net interest income are summarized in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Other	Total
		(dollars in thousands)			
12/31/09 – 12/31/08					
Interest income	$ (394)	$ (4,108)	$ 360	$ (2)	$ (4,144)
Interest expense	(113)	(3,056)	–	–	(3,169)
Income	$ (281)	$ (1,052)	$ 360	$ (2)	$ (975)
12/31/08 – 12/31/07					
Interest income	$ 981	$ (5,558)	$ 31	$ (5)	$ (4,551)
Interest expense	744	(4,322)	–	–	(3,578)
Income	$ 237	$ (1,236)	$ 31	$ (5)	$ (973)

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

Please refer to the Consolidated Five-Year Summary of Selected Financial Data in this Annual Report to review key financial ratios pertaining to earnings and net interest income.

For the twelve months of 2009, the Association recognized provision for loan losses expense which totaled $3,312, compared to $926 and $59 for the twelve months of 2008 and 2007, respectively. During 2009, the Association included $2,319 of specific reserves in the provision expense for loans classified as impaired under FASB guidance, “Accounting by Creditors for Impairment of a Loan,” as compared to $942 of specific reserves during 2008 and none during 2007.

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2009**	**2008**	**2007**	**2009/ 2008**	**2008/ 2007**
	(dollars in thousands)				
Loan fees	$ 352	$ 396	$ 319	(11.11)%	24.14%
Patronage Rebate Fees	233	156	–	49.36	–
Patronage refunds from other Farm Credit Institutions	1,845	1,605	1,784	14.95	(10.03)
Other noninterest income	45	76	67	(40.79)	13.43
Gains (losses) on other property owned	89	(50)	–	278.0	–
Total noninterest income	$ 2,564	$ 2,183	$ 2,170	17.45 %	.60%

Regarding patronage refunds received from other Farm Credit Institutions, the Association received $1,599 in two patronage refunds from the Bank and $246 in a special dividend distribution from the Bank for the year ended December 31, 2009; this compared to $1,605 in two patronage refunds and no special dividend distribution for the year ended December 31, 2008 and $1,519 in patronage refunds and $265 in a special dividend for 2007.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2009**	**2008**	**2007**	**2009/ 2008**	**2008/ 2007**
	(dollars in thousands)				
Salaries and employee benefits	$ 3,212	$ 2,600	$ 2,926	23.54%	(11.14)%
Occupancy and equipment	266	285	264	(6.67)	7.95
Insurance Fund premiums	392	337	332	16.32	1.51
Other operating expenses	787	888	958	(11.37)	(7.31)
Total noninterest expense	$ 4,657	$ 4,110	$ 4,480	13.31%	(8.26)%

Salaries and employee benefits expense increased in 2009 primarily due to an actuarial analysis as of December 31, 2008 which resulted in increased pension-related benefit expense of $878, when compared to 2008. This was partially reduced by actions that decreased salaries expense by $355.

Income Taxes

The Association recorded no provision for federal income tax for 2009, 2008, or 2007. The Association is exempt from Puerto Rico income tax under Article 23 of the General Cooperative Act of 2004. Please refer to Note 2(H), Income Taxes, for more specific information.

Key Results of Operations Comparisons

Key results of operations comparisons for the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/09	For the 12 Months Ended 12/31/08	For the 12 Months Ended 12/31/07
Return on Average Assets	(0.33)%	1.00%	1.62%
Return on Average Members’ Equity	(1.54)%	4.67%	7.41%
Net Interest Income as a Percentage of Average Earning Assets	1.93%	2.18%	2.68%
Net (Charge-offs) Recoveries to Average Loans	(0.76)%	–%	–%

The Association’s financial goals continue to be the same as in previous years: operating within safe and sound parameters while generating sufficient income to maintain a highly capitalized Association and to declare and pay an attractive patronage dividend to the members/borrowers of the Association. To accomplish this, the Association must achieve its objectives, which include attracting and retaining quality volume, which is competitively priced, while effectively managing risk within the balance sheet and income statement.

LIQUIDITY AND FUNDING SOURCES

Funding and Liquidity

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association’s credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw

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

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The Association's liquidity practice is to maintain cash balances in a local depository bank at a level that maximizes reduction of the direct note by increasing loanable funds. As borrower payments are received, they are immediately applied to the respective notes payable to the Bank. The Association's participation in investments and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in the Association experiencing a liquidity deficiency.

Total notes payable to the Bank at December 31, 2009 were $187,237 as compared to $219,092 at December 31, 2008 and $197,926 at December 31, 2007. The decrease of $31,855 or 14.54 percent closely corresponds to the decrease in loans during 2009. The average volume of notes payable to the Bank was $203,530 and $206,317 for the years ended December 31, 2009 and 2008, respectively. Refer to Note 7, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to either the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Fixed rate loans are priced based on the current cost of Farm Credit System debt of similar terms to maturity. The Association does not offer or include adjustable rate mortgages (ARMS) in its portfolio of loan products.

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

RELATIONSHIP WITH THE BANK

The Association's statutory obligation to borrow only from the Bank is discussed in Note 7, "Notes Payable to AgFirst Farm Credit Bank" of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's ability to access capital of the Association is discussed in Note 4 of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding Sources" section of this Management's Discussion and Analysis and in Note 7, "Notes Payable to AgFirst Farm Credit Bank" included in this Annual Report.

CAPITAL RESOURCES

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

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

Total members' equity at December 31, 2009 decreased $1,595 or 2.83 percent from the December 31, 2008 total of $56,269. At December 31, 2008 total members' equity increased 1.27 percent or $708 from the December 31, 2007 total of $55,561. For 2009, the Association recorded a consolidated net loss from operations of $(860). The FLCA subsidiary showed a loss of $(1,464), while the ACA recognized patronage sourced net income which totaled $604. The increase from 2007 to 2008 was primarily related to the retention of FLCA non-patronage sourced net income that was not eligible for patronage dividend consideration under the Association's sub-chapter T cooperative federal tax filing status. Net income retained during 2008 was earned by the Association's tax exempt FLCA subsidiary, while the taxable net income of the ACA was distributed as a patronage dividend to eligible borrowers.

Additionally, for 2009 and 2008, total members' equity changed by $(168) and $51, respectively, which were the net incremental adjustments recorded as Accumulated Other Comprehensive Income (Loss) from adopting the provisions of FASB guidance, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The adoption of this guidance had no effect on the Consolidated Statements of Operations for the years ended December 31, 2009 and 2008. Refer to Note 10, "Employee Benefit Plans," of the Notes to the Consolidated

Financial Statements for additional information on the adoption of this guidance during 2007.

Total capital stock and participation certificates were $721 on December 31, 2009, compared to $779 on December 31, 2008 and $819 on December 31, 2007. The Board of Directors continued its commitment to maintain the cooperative equity investment requirement at the regulatory minimum of 2.0 percent of the original loan or $1,000, whichever is less.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all three ratios.

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

	2009	2008	2007	Regulatory Minimum
Permanent Capital	17.39%	16.96%	23.48%	7.00%
Total Surplus	17.06%	16.74%	23.11%	7.00%
Core Surplus	17.06%	16.74%	23.11%	3.50%

The decrease in the Association's permanent capital, total surplus and core surplus ratios from December 31, 2007 was attributable to a decrease in calculated risk weighted assets offset by reductions in capital due to the 2009 net operating loss, the FCA's approval of the Association's investment in notes receivable of other Farm Credit institutions during 2008 and an increased investment in other Farm Credit institutions in 2009 and 2008. The FCA's approval of the Association's investment in notes receivable from other Farm Credit institutions required it to deduct the total amount of the investment from the amount of permanent capital. There are no trends, commitments, contingencies or events that are likely to negatively affect the Association's ability to meet the FCA's regulatory minimum capital standards and capital adequacy requirements.

See Note 8, "Members' Equity," of the Notes to the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, if necessary, to increase surplus to meet Association capital adequacy standards, to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to the Association's FLCA subsidiary earned on a non-patronage basis, the remaining taxable earnings of the Association are eligible for allocation and distribution to eligible borrowers. Refer to Note 8, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distribution. The Association declared estimated patronage distributions of $615 in 2009, $2,000 in 2008 and $3,250 in 2007.

2009's patronage dividend was materially lower than prior years' declarations primarily due to charge-off activity and reduced net interest income from lower accruing loan volume.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase its market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit.

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

	As of December 31, 2009	
	Number of Loans	Amount of Loans
Young	94	$13,625
Beginning	324	$45,912
Small	394	$49,222

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

The 2007 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory there were 15,745 reported farmers of which by definition 720 or 4.57 percent were Young and 4,785 or 30.39 percent were Beginning. The Puerto Rico census does not make available data which identifies and classifies Small farmers. Comparatively, as of December 31, 2009, the demographics of the Association's agricultural portfolio contained 636 farmers, of which by definition 94 or 14.78 percent were Young, 324 or 50.94 percent were Beginning and 394 or 61.95 percent were Small.

In addition to the marketing strategies, in 2009 the Association supported Young, Beginning and Small farmers through outreach and financial support programs.

Education is at the heart of the programs, and includes seminars, speaking opportunities and training sessions, which are conducted throughout the year. These educational opportunities may be both in-house, in the form of events held by the Association, and external, in which case, the Association is a speaker or provider of educational materials. The Association website includes a section of information and resources for YBS visitors to the site.

A second focus area of the program includes those activities where the Association sponsors local events or events where the Association is an exhibitor (such as industry or trade shows). Financial support addresses the specific credit programs and partnerships that the Association has developed to help small

farmers, young farmers, and farmers just starting out. It comprises programs such as those offered by the Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers. The Association is a "certified lender," as designated by FSA.

The following outreach programs were conducted during 2009 in the Association's efforts to achieve established goals:

- utilization of AgScore (credit score lending for small loan borrowers)
- experienced credit staff coordinated/participated in the development and implementation of business financial skills training for YBS farmers
- supported and/or sponsored various programs and activities of 4H, the Service de Extension Agricola of UPR-Mayaguez.
- Participated in various educational programs coordinated by the Department of Agriculture.

The Regional Lending Manager coordinates the Association's efforts, and oversees the YBS program. The Association includes YBS goals in the annual strategic business plan, and reports on those goals and achievements to the board of directors on a quarterly basis.

The Association is committed to the future success of Young, Beginning and Small farmers.

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

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

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

REGULATORY MATTERS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2009, the Association adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures (see Note 13), primarily regarding other property owned, but does not have an impact on the Association's financial condition or results of operations.

In April 2009, the Financial Accounting Standards Board (FASB) issued guidance, "Interim Disclosures about Fair Value of Financial Instruments." This guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The Association adopted this guidance effective June 30, 2009 (see Note 14).

In May 2009, the FASB issued guidance, "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be included in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not included in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was adopted by the Association effective June 30, 2009 (see Note 16).

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 of the Consolidated Financial Statements, *"Organization and Operations,"* included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, patronage dividend policies or practices, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* included in this Annual Report.

Description of Property

The following table sets forth certain information regarding the property of the reporting entity, which is located in San Juan, Puerto Rico:

Location	Description	Form of Ownership
213 Dommenech Ave Hato Rey	Administrative/ San Juan Branch	Owned

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 12 of the Consolidated Financial Statements, *"Commitments and Contingencies,"* included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 8 of the Consolidated Financial Statements, *"Members' Equity,"* included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2 and 12 of the Consolidated Financial Statements included in this Annual Report.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association:

Senior Officer	Position
William A. Garrahan	*President & Chief Executive Officer* since March 1992
Sonia C. Arteaga	*Vice President & Chief Credit Officer* since March 1992
Bruce M. Hoffman	*Vice President & Chief Operating Officer /Chief Financial Officer* since November 1992
Jorge A. Dulzaides	*Regional Lending Manager* since January 2000

The business experience for the past five years for the senior officers listed above has been with Puerto Rico Farm Credit, ACA.

The total amount of compensation earned by the CEO and the five most highly paid officers as a group, during the years ended December 31, 2009, 2008 and 2007, is as follows:

Aggregate Number of Senior Officers	Year	Salary	Exec. Compens.	Other Bonus	Total
William A. Garrahan	2009	$300,012	$ -	$ 600	$300,612
William A. Garrahan	2008	$300,012	$ 64,400	$ 600	$365,012
William A. Garrahan	2007	$300,011	$100,000	$ 450	$400,461
5	2009	$569,612	$ -	$ 3,000	$572,612
5	2008	$572,316	$110,400	$3,000	$685,716
5	2007	$561,843	$163,000	$2,250	$727,093

For all three years, the Association has had no plans in place or provisions which would allow for or facilitate the deferral of compensation, either salary or bonus.

Other bonus equates to the mandatory payment of a Christmas Bonus required by Commonwealth law. For 2008 and 2007, the Board authorized payment of executive compensation in December of the year earned, as performance measures were finalized. For 2009, given the Association's net operating loss, no consideration was given by the Board to the payment of executive compensation, as there was no accrual or expense recorded for the plan during 2009.

The executive compensation plan (the plan) is adopted annually for the current year. Actual payment is generally decided upon at the December board meeting, but can be any other date as the board decides, based upon whether performance measures are calculable and reportable. Compensation amounts are estimated, accrued and expensed on a monthly basis. The plan not only covers the Association's senior officers, but also includes department managers. The objectives of the plan are to tie management compensation directly to organizational performance, focusing attention on both short-term and long-term results. For the three years covered in this report, the Board adopted plans which contained quantifiable performance categories. For both 2008 and 2007, the Board of Directors adopted plans which contained the same quantifiable categories, and included a fourth discretionary category that was not quantifiably measurable. Each performance area had a defined payout amount assigned with measurable performance targets established. For 2009, the Board adopted a plan which contained only a discretionary category.

The following chart describes the weighted significance each performance category was assigned by the Board of Directors during the last three years.

	2007	2008	2009
Business loan volume	25%	25%	0%
Quality control	5%	5%	0%
Financial performance	5%	5%	0%
Individual contribution	65%	65%	100%

Within each major performance category there were specific objectives established which were designed to motivate performance that exceeded the most likely goals of the related annual business plan. These objectives typically include return on assets, credit quality, and delinquency, growth in loan volume, examination results and control of operating expenses.

Disclosure of information on the total compensation paid during 2009 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Directors

Directors and senior officers are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business.

A copy of the policy is available to stockholders of the Association upon request.

The aggregate amount of expense or reimbursement for travel, subsistence and other related expenses for all directors as a group was $51,789 for 2009, $71,808 for 2008 and $58,892 for 2007. It is the practice of the Association not to provide noncash compensation to directors. For 2009, there was no noncash compensation provided.

Subject to approval of the Board of Directors, the chairman was compensated at a per diem rate of $400 for all official activities. The other five elected, stockholder directors were compensated at a per diem rate of $375. Honorarium for the independent, outside director was at a per diem rate of $1,000 for all official activities. Directors are also paid honorarium at the per diem rate on a full day basis for normal travel to and from conferences and meetings when the distance and schedule requires travel on any portion of the day prior to or following the scheduled activity.

In addition, all directors were paid quarterly a retainer fee as compensation for incidental services and review/preparation for meetings and assignments. The chairman's retainer fee was $875 per quarter and $750 per quarter for all other directors, including the outside director.

Additional information for each Director is provided below:

	No. of Days Served			
Name of Director	Regular Board Meetings	Other Official Activities	Committee Assignments	Total Honoraria During 2009
Juan A. Santiago	12	8	Governance/Compensation	$ 11,500
Damián Rivera	12	8	Governance - Chairman	10,500
Felipe Ozonas-Morell	11	8	Governance Compensation - Chairman	10,125
Francisco del Río	12	4	Credit Review	9,000
Carlos A. Rodríguez	12	4	Credit Review	9,000
Víctor M. Ayala	12	8	Audit	10,500
Antonio Marichal*	12	5	Audit – Chairman Compensation	20,000
				$ 80,625

* *Audit Committee financial expert as determined by the Board of Directors*

All directors shall make themselves available to serve on the loan committee, upon the scheduling of a meeting. Any two directors along with the president/CEO shall constitute a quorum for the loan committee. Committee meetings are normally scheduled and held the same day as monthly board of director's meetings. This scheduling method results in there being no separate and/or additional honorarium paid for the various committee meetings.

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

Mr. Juan A. Santiago, 45, Chairman, owns and operates a 240-acre floriculture, plantain and beef cattle farm. Mr. Santiago is an agronomist and is a member of the Puerto Rico Farm Bureau, the Puerto Rico Agronomist Association, the Audubon Society and the Ornamental Plants Producers Association. His term of office is 2007 – 2010. He was first elected to the Board in 1992.

Mr. Damián Rivera, 56, owns and operates a 502 acre dairy and dairy herd replacement farm. He is an agronomist and is a member of the Puerto Rico Agronomist Association. His term of office is 2009 – 2012. He was first elected to the Board in 1994.

Mr. Francisco del Río, 61, second Vice Chairman, is a producer of hay and silage on his owned 41.66 cuerdas and leased 292 cuerdas farms in Morovis and Manatí. He is a member of the Puerto Rico Farm Bureau Association. His term of office is 2007 – 2010. He was first elected to the board in 1995.

Mr. Felipe Ozonas-Morell, 48, Vice Chairman, operates a farm in Castañer, Adjuntas producing Arábiga and Robusta coffee and production, packing and marketing of citrus. He completed

advanced studies in livestock engineering in Spain and is a member of the Puerto Rico Farm Bureau. His term of office is 2009 – 2012. He was first elected to the Board in 2000.

Mr. Victor M. Ayala, 61, owns and operates a dairy farm in Humacao. He attended University of Puerto Rico – Mayaguez Campus, where he obtained a degree in Civil Engineering. His memberships include College of Engineers and Surveyors, Puerto Rico Farm Bureau, Asociación Pecuaria del Este, Federación de Asociaciones Pecuarias de PR, Inc. and Fondo de Estabilización de Precios de la Industria Lechera. His term of office is 2008 – 2011. He was first elected to the Board in 2004.

Mr. Carlos A. Rodríguez, 59, owns and operates a dairy farm in Morovis. He has a bachelor's degree in Business Administration from the University of Puerto Rico. His memberships include the Puerto Rico Farm Bureau, board member of the "Junta Fondo Estabilización de Precios de la Industria Lechera" and Puerto Rico Dairy Herd Improvement Association. His term of office is 2008 – 2011. He was first elected to the Board in 2002.

Mr. Antonio E. Marichal, 59, External Director, is an accountant and licensed attorney. For the past five years he has been a partner in a law firm, specializing in corporate law. He is very familiar with agriculture, especially the dairy sector. His memberships include Puerto Rico Bar Association, American Bar Association, Asociación de Notarios de PR, among others. His term of office is 2009 – 2012. He was first appointed to the Board in 2006.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 11 of the Consolidated Financial Statements, *"Related Party Transactions,"* included in this Annual Report.

Transactions Other Than Loans

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

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditor

There were no changes in or material disagreements with our independent auditor on any matter of accounting principles or financial statement disclosure during this period.

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

	2009
Independent Auditor	
PricewaterhouseCoopers LLP	
Audit services	$ 54,000
Total	$ 54,000

Audit services fees were for the annual audit of the Consolidated Financial Statements.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 12, 2010 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-787-753-5435, or writing Bruce M. Hoffman, Vice President, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936 or accessing the web site, ***www.puertoricofarmcredit.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

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

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

Shareholder Investment

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

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Puerto Rico Farm Credit, ACA (Association) and in the opinion of the Board of Directors; each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditor for 2009, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 (*The Auditor's Communication with those charged with Governance*). PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees*)*, and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

The members of the Committee are not professionally engaged in the practice of auditing or accounting. The members of the Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the Committee's considerations and discussions referred to above do not assure that the audit of the Association's financial statements has been carried out in accordance with auditing standards generally accepted in the United States of America or that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2009. The foregoing report is provided by the following independent directors, who constitute the Audit Committee:

Antonio E. Marichal, External Director
Chairman of the Audit Committee

Members of Audit Committee

Victor M. Ayala, Director
Juan A. Santiago, Director

March 12, 2010

Report of Independent Auditors

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

Report of Independent Auditors

To the Board of Directors and Members
of Puerto Rico Farm Credit, ACA

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Puerto Rico Farm Credit, ACA (the Association) and its subsidiaries at December 31, 2009, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 12, 2010

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2009	December 31, 2008	December 31, 2007
Assets			
Cash	$ 162	$ 290	$ 130
Loans	227,226	260,905	250,019
Less: allowance for loan losses	2,720	1,254	330
Net loans	224,506	259,651	249,689
Notes receivable from other Farm Credit institutions (Note 5)	10,000	10,000	—
Accrued interest receivable	864	1,244	1,783
Investments in other Farm Credit institutions	3,679	3,517	3,399
Premises and equipment, net	1,116	1,241	976
Other property owned	521	—	73
Due from AgFirst Farm Credit Bank	1,845	1,605	1,784
Other assets	2,261	2,286	1,849
Total assets	$ 244,954	$ 279,834	$ 259,683
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 187,237	$ 219,092	$ 197,926
Accrued interest payable	375	551	958
Patronage refund payable	615	2,000	3,250
Other liabilities	2,053	1,922	1,988
Total liabilities	190,280	223,565	204,122
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	721	779	819
Unallocated retained earnings	53,208	54,577	53,880
Accumulated other comprehensive income (loss)	745	913	862
Total members' equity	54,674	56,269	55,561
Total liabilities and members' equity	$ 244,954	$ 279,834	$ 259,683

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

Consolidated Statements of Operations

(dollars in thousands)	For the year ended December 31, 2009	2008	2007
Interest Income			
Investment securities	$ —	$ 1	$ 7
Loans	8,802	13,605	18,390
Notes receivable from other Farm Credit institutions (Note 5)	900	240	—
Total interest income	9,702	13,846	18,397
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	5,157	8,326	11,904
Net interest income	4,545	5,520	6,493
Provision for (reversal of allowance for) loan losses	3,312	926	59
Net interest income after provision for (reversal of allowance for) loan losses	1,233	4,594	6,434
Noninterest Income			
Loan fees	352	396	319
Patronage rebate fees	233	156	—
Patronage refund from other Farm Credit institutions	1,845	1,605	1,784
Gains (losses) on other property owned, net	89	(50)	—
Other noninterest income	45	76	67
Total noninterest income	2,564	2,183	2,170
Noninterest Expense			
Salaries and employee benefits	3,212	2,600	2,926
Occupancy and equipment	266	285	264
Insurance Fund premiums	392	337	332
Other operating expenses	787	888	958
Total noninterest expense	4,657	4,110	4,480
Income (loss) before income taxes	(860)	2,667	4,124
Provision (benefit) for income taxes	—	—	—
Net income (loss)	$ (860)	$ 2,667	$ 4,124

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2006	$ 874	$ 52,941	$ —	$ 53,815
Net income		4,124		4,124
Capital stock/participation certificates issued/(retired), net	(55)			(55)
Patronage distribution				
Cash		(3,250)		(3,250)
Patronage distribution adjustment		65		65
Adjustment to initially apply accounting guidance for employee benefit plans (Note 10)			862	862
Balance at December 31, 2007	819	53,880	862	55,561
Comprehensive income				
Net income		2,667		2,667
Employee benefit plans adjustments (Note 10)		(17)	51	34
Total comprehensive income				2,701
Capital stock/participation certificates issued/(retired), net	(40)			(40)
Patronage distribution				
Cash		(2,000)		(2,000)
Patronage distribution adjustment		47		47
Balance at December 31, 2008	779	54,577	913	56,269
Comprehensive income (loss)				
Net loss		(860)		(860)
Employee benefit plans adjustments (Note 10)			(168)	(168)
Total comprehensive loss				(1,028)
Capital stock/participation certificates issued/(retired), net	(58)			(58)
Patronage distribution				
Cash		(615)		(615)
Patronage distribution adjustment		106		106
Balance at December 31, 2009	$ 721	$ 53,208	$ 745	$ 54,674

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2009	2008	2007
Cash flows from operating activities:			
Net income (loss)	$ (860)	$ 2,667	$ 4,124
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	165	174	164
Amortization (accretion) of net deferred loan origination costs (fees)	96	134	(13)
Amortization of premiums on purchased loans	260	265	483
Provision for (reversal of allowance for) loan losses	3,312	926	59
(Gains) losses on other property owned, net	(89)	50	—
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	380	539	124
(Increase) decrease in due from AgFirst Farm Credit Bank	(240)	179	135
(Increase) decrease in other assets	25	(437)	606
Increase (decrease) in accrued interest payable	(176)	(407)	(56)
Increase (decrease) in other liabilities	(37)	(32)	197
Total adjustments	3,696	1,391	1,699
Net cash provided by (used in) operating activities	2,836	4,058	5,823
Cash flows from investing activities:			
Net (increase) decrease in loans	30,947	(11,287)	(3,515)
(Increase) decrease in notes receivable from other Farm Credit institutions	—	(10,000)	—
(Increase) decrease in investment in other Farm Credit institutions	(162)	(118)	271
Purchases of premises and equipment	(40)	(439)	(348)
Proceeds from sales of other property owned	98	23	89
Net cash provided by (used in) investing activities	30,843	(21,821)	(3,503)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(31,855)	21,166	868
Capital stock and participation certificates issued/(retired), net	(58)	(40)	(55)
Patronage refunds paid	(1,894)	(3,203)	(3,135)
Net cash provided by (used in) financing activities	(33,807)	17,923	(2,322)
Net increase (decrease) in cash	(128)	160	(2)
Cash, beginning of period	290	130	132
Cash, end of period	$ 162	$ 290	$ 130
Supplemental schedule of non-cash activities:			
Loans transferred to other property owned	$ 530	$ —	$ 162
Patronage distributions declared	615	2,000	3,250
Decrease in liability resulting from adoption of accounting guidance for employee benefit plans (Note 10)	—	—	(862)
Employee benefit plans adjustments (Note 10)	168	(34)	—
Supplemental information:			
Interest paid	$ 5,333	$ 8,733	$ 11,960
Taxes (refunded) paid, net	—	—	—

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Puerto Rico Farm Credit, ACA (Association) is a stockholder-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified purposes within the Commonwealth of Puerto Rico. The Association is also authorized by its charter from the Farm Credit Administration to provide the same credit and credit-related services for qualified purposes within the territory of the U.S. Virgin Islands.

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

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

   Puerto Rico Farm Credit, ACA holds a charter for each of the two wholly-owned subsidiaries. The Association makes short- and intermediate-term loans for agricultural production or operating purposes, and collateralized long-term real estate mortgage loans, with funding from the Bank. The ACA further participates certain participation loans acquired on a non-patronage basis to the FLCA.

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

   The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation or FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

   The Association may sell to any borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

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

A. **Cash:** Cash as included in the statements of cash flows, represents cash on hand and on deposit at the Association's depository bank.

B. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans for agricultural purposes generally have maturities that extend up to 20 years. Long-term real estate loans made for the purpose of rural housing may have original maturities that range from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans originated within the Association's chartered territory, Puerto Rico, are generally carried at the principal amount outstanding, net of the unamortized cost to originate. The related loan origination fees and direct loan origination costs are netted and deferred and the net fee or cost is amortized over the life of the related loan as an adjustment to yield. Certain participation loans are purchased at a premium. These loans are carried at the principal amount outstanding, plus the unamortized premium. Premium is amortized on a monthly basis as an adjustment to interest income. Additionally, some of the participation loans purchased at a premium are acquired in the USDA secondary market with both the principal and the interest unconditionally guaranteed by the United States government. Interest on loans, both originated and purchased participations, is accrued and credited to interest income based upon the daily principal amount outstanding

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

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

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

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans, and could include loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

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

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is a valuation account used to reasonably estimate loan losses existing as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance for loan losses reversals and loan charge-offs.

C. **Investment in AgFirst Farm Credit Bank:** The Association is required to maintain ownership in the Bank. Such ownership investment in the Bank is in the form of Class C stock. This investment may be adjusted periodically. Accounting for this investment is on the purchased cost basis.

D. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Revised estimates of the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses and carrying value adjustments related to other property owned are included in gains (losses) on other property owned, net.

E. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

F. **Advanced Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted; the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as interest-bearing liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured.

G. **Employee Benefit Plans:** All employees of the Association may participate in either the AgFirst Farm Credit Final Average Pay Retirement Plan or the AgFirst Farm Credit Cash Balance Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer plans. These two Plans are noncontributory and include eligible District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of these Plans are allocated to each participating entity, including the Association, by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for both Plans' participants.

All employees of the Association may also be eligible to participate in a defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. The 401(k) plan also qualifies in Puerto Rico with the Department of the Treasury (Hacienda) as an 1165(e) plan. For employees hired on or prior to December 31, 2002, the Association contributes $.50 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. Employee contributions are not to exceed the maximum contribution as established by Hacienda. On a monthly basis plan administrative costs are accrued and/or expensed when incurred, depending upon the individual vendor providing services.

The Association provides certain health care and life insurance benefits to eligible retired employees. Substantially all employees may become eligible for these benefits if they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits. Refer to Note 10 for the impact of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans and for more detail on costs directly related to employee benefit plans.

H. **Income Taxes: T**he Association operates as a cooperative that qualifies for federal tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the ACA can exclude from taxable income amounts distributed as qualified patronage refunds. Provisions for federal income tax will be calculated and recorded only on those earnings not distributed. The Association distributes 100 percent of patronage sourced earnings on the basis of federal taxable income.

As previously described, the ACA operates with one wholly-owned subsidiary. The FLCA is exempt from federal and other income taxes as provided in the Farm Credit Act. The ACA is subject to federal income tax. The Association accounts for income taxes under the asset and liability method.

The Association has adopted a "pro-rata" method to tax effect only the portion of the Association's temporary differences expected to have a future tax consequence to the Association. The Association intends to have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends. This operating scenario results in zero federal taxable income. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences.

For Puerto Rico tax purposes, the Association has had a ruling from the Puerto Rico Treasury Department since June 1993 determining that the Association and its subsidiaries will be treated as a domestic cooperative association. Thus, the Association enjoys the exemptions provided by Article 23 of the General Cooperative Association Act of Puerto Rico of 2004, Act No. 239 of September 1, 2004.

I. **Patronage Refund from AgFirst:** The Association records patronage refunds from the Bank on an accrual basis.

J. **Fair Value Measurement:** Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It describes three levels of inputs that may be used to measure fair value as discussed in Note 13.

K. **Recently Issued Accounting Pronouncements:** Effective January 1, 2009, the Association adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures (see Note 13), primarily regarding other property owned, but does not have an impact on the Association's financial condition or results of operations.

In April 2009, the Financial Accounting Standards Board (FASB) issued guidance, "Interim Disclosures about Fair Value of Financial Instruments." This guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The Association adopted this guidance effective June 30, 2009 (see Note 14).

In May 2009, the FASB issued guidance, "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be included in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not included in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was adopted by the Association effective June 30, 2009 (see Note 16).

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

Note 3 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31,		
	2009	2008	2007
Real estate mortgage	$ 128,614	$ 141,716	$ 152,002
Production and intermediate term	41,361	52,737	38,918
Processing and marketing	26,221	32,374	28,202
Rural residential real estate	20,899	22,685	23,359
Communication	4,987	5,024	1,303
Energy	2,875	2,000	2,000
Farm related business	2,227	4,369	4,235
Loans to cooperatives	42	–	–
Total loans	$ 227,226	$ 260,905	$ 250,019

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

The FCA has in place regulations which limit the total amount of principal and commitment a direct lender association may make available to an individual loan relationship. The regulatory limit is 25 percent of permanent capital. In response to these regulations, the Association has adopted an administratively set limit significantly lower than the regulatory maximum limit.

For such loans that exceed the maximum limit, the Association participates (sells to the Bank without recourse) the excess volume above the Association's administratively established lending limit. At December 31, 2009, 2008 and 2007, the Association had sold to the Bank $12,110, $11,572 and $7,971 respectively, from two lending relationships.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in a loan to value ratio in excess of the regulatory maximum.
The following table presents information relating to impaired loans as defined in Note 2.

	December 31,		
	2009	2008	2007
Impaired nonaccrual loans:			
Current as to principal and interest	$ 6,534	$ 9,170	$ 300
Past due	12,573	3,456	4,153
Total impaired nonaccrual loans	19,107	12,626	4,453
Impaired accrual loans:			
Restructured	–	–	–
90 days or more past due	–	242	–
Total impaired accrual loans	–	242	–
Total impaired loans	$19,107	$12,868	$ 4,453

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

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

	2009	2008	2007
Average impaired loans	$18,963	$ 6,163	$ 3,026

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

	Year Ended December 31, 2009	2008	2007
Interest income recognized on impaired nonaccrual loans	$ 468	$ 107	$ 76
Interest income on impaired accrual loans	5	10	17
Interest income recognized on impaired loans	$ 473	$ 117	$ 93

Life-to-date interest income on nonaccrual loans that would have been recognized under the original terms of the loans, totaled $1,621 at December 31, 2009, $1,135 at December 31, 2008, and $786 at December 31, 2007. The following table presents information concerning nonaccrual loans for 2009, 2008 and 2007:

	Year Ended December 31, 2009	2008	2007
Interest income which would have been recognized under the original loan terms	$ 836	$ 435	$ 245
Interest income compromised during collection	58	8	35
Less: interest income recognized and collected	(468)	(107)	(76)
Foregone interest income	$ 426	$ 336	$ 204

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

	Year Ended December 31, 2009	2008	2007
Balance at beginning of year	$ 1,254	$ 330	$ 271
Charge-offs:			
Real estate mortgage	(83)	–	–
Production and intermediate term	(866)	(2)	–
Agri-business	(897)	–	–
Total charge-offs	(1,846)	(2)	–
Recoveries:			
Total recoveries	–	–	–
Net (charge-offs) recoveries	(1,846)	(2)	–
Provision for (reversal of allowance for) loan losses	3,312	926	59
Balance at end of year	$ 2,720	$ 1,254	$ 330
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.755)%	–%	–%

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

	2009	2008	2007
Impaired loans with related allowance	$ 4,029	$ 3,189	$ –
Impaired loans with no related allowance	15,078	9,679	4,453
Total impaired loans	$ 19,107	$ 12,868	$ 4,453
Allowance on impaired loans	$ 1,415	$ 942	$ –

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

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
Real estate mortgage	$ 283	10%	$ 160	13%
Production and intermediate term	44	2	501	40
Agribusiness	2,330	86	559	44
Communication	19	1	11	1
Energy	7	–	2	–
Rural residential real estate	37	1	21	2
Total	$ 2,720	100%	$ 1,254	100%

	December 31, 2007	
	Amount	%
Real estate mortgage	$ 137	42%
Production and intermediate term	14	4
Agribusiness	152	46
Communication	6	2
Energy	4	1
Rural residential real estate	17	5
Total	$ 330	100%

Note 4 — Investment in AgFirst Farm Credit Bank

The Association is required to maintain ownership in AgFirst Farm Credit Bank of Class C stock. The Bank may require additional capital contributions to maintain its capital requirements.

At December 31, 2009, the Association's investment in the Bank was composed of purchased Class C stock and totaled $3,679. At December 31, 2008 and 2007, the Association's investment in the Bank was also composed of purchased Class C stock from AgFirst and totaled $3,517 and $3,399, respectively. In 2009 and 2008, the Association purchased additional Bank stock totaling $162 and $118, respectively, and in 2007 was given a refund totaling $271, as part of the Bank's annual capital equalization program.

Note 5 — Notes Receivable from Other Farm Credit Institutions

In September 2008, the Association used capital reserves to purchase $10,000 total of fixed rate unsecured subordinated notes issued by two other associations in the District, both notes due in 2018. The notes receivable are subordinate to all other categories of creditors of the issuing associations, including any claims of the Bank and general creditors, but are senior to all classes of shareholders of the issuing associations. The notes receivable are not considered System debt, and thus are not guaranteed by the System and not insured by the Insurance Corporation. Since the notes receivable are only guaranteed by the issuing associations, repayment could be negatively impacted by funding, credit,

and/or counterparty risks encountered by the two issuing associations in their business operations.

The notes receivable bear interest at an annual fixed rate of 9.00 percent, payable on the fifteenth day of each month, beginning on October 15, 2008. Interest will be deferred if, as of the fifth business day prior to an interest payment date, any applicable minimum regulatory capital ratios are not satisfied by the issuing association(s). A deferral period may not last for more than five consecutive years or beyond the maturity date of the note(s). During such a period, the issuing association(s) may not declare or pay any dividends or patronage refunds, among other certain restrictions, until interest payments are resumed and all deferred interest has been paid. The note(s) may be redeemed, at the issuing association's(s') option, on October 15, 2013, or upon the occurrence of certain defined regulatory events, at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided the issuing association(s) have made payment in full of all amounts then due in respect of their senior indebtedness.

Note 6 — Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2009	2008	2007
Land and improvements	$ 106	$ 106	$ 106
Buildings and improvements	1,427	1,458	1,254
Furniture and equipment	1,214	1,282	1,123
	2,747	2,846	2,483
Less: accumulated depreciation	1,631	1,605	1,507
Total	$ 1,116	$ 1,241	$ 976

Note 7 — Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which for 2009 included margins, earnings and solvency covenants. The Association failed to meet its earning covenant at December 31, 2009. The default allows the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. In early 2010, following review of a plan submitted by the Association to achieve compliance with the covenant, the Bank approved a temporary waiver of the default and allowed the Association to continue operating under special credit arrangement pursuant to its GFA. The Association has continued to perform under the GFA, notwithstanding its covenant default.

Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association. The weighted average interest rates on the variable rate notes were 1.47 percent for LIBOR-based loans, 1.72 percent for Prime-based loans, and the weighted average remaining maturities were 0.7 years and 8.4 years, respectively, at December 31, 2009. The weighted average interest rate on the fixed rate notes payable which are match funded by the Bank was 2.84 percent and the weighted average remaining maturity was 4.4 years at December 31, 2009. The weighted average interest rate on all interest-bearing notes payable was 2.05 percent and the weighted average remaining maturity was 6.4 years at December 31, 2009.

Variable rate and fixed rate notes payable represent approximately 57.18 percent and 42.82 percent, respectively, of total notes payable at December 31, 2009.

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

Note 8 — Members' Equity

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

A. **Capital Stock and Participation Certificates**

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or Class C participation certificates in the case of rural home and farm related business loans, as a condition of borrowing.

The initial borrower investment, through either purchase or transfer, must be in an amount equal to 2.0 percent or $1, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs.

Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation. At December 31, 2009, the Association had no loans designated for sale, nor were any loans previously sold into the Secondary Market.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers.

Retirement of such equities is at par ($5 per share). Repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates. Retirements of equity investments are subject to approval by the Board, at its sole discretion. Subject to any limitations of the Farm Credit Act, when the debt of a borrower/stockholder is in default, the Association may order

retirement of stock or participation certificates owned by the borrower and apply the proceeds to the indebtedness.

B. **Regulatory Capitalization Requirements and Restrictions**

FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the 7.00 percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements.

The Association is prohibited from reducing permanent capital by retiring equity or making certain other distributions to shareholders unless prescribed capital standards are met. FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of 7.00 percent and core surplus as a percentage of risk-adjusted assets of 3.50 percent. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2009 were 17.39 percent, 17.06 percent and 17.06 percent, respectively.

A FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

C. **Description of Equities**

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

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

		Shares Outstanding	
Class	**Protected**	**Number**	**Aggregate Par Value**
C Common/Voting	No	90,796	$ 454
C Participation Certificates/Nonvoting	No	53,430	267
Total Capital Stock and Participation Certificates		144,226	$ 721

Common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amount, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account. The minimum amount is determined annually by the Board. At the end of any fiscal year, if the retained earnings account would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board.

Equity Dividends

Equity dividends may be declared and paid on stock and participation certificates as determined by the Board's resolution. The rate of dividend paid on Class D Preferred Stock for any fiscal year may not be less than the rate of dividend paid on common stock or participation certificates for such year. All equity dividends shall be paid on a per share basis. Dividends on common stock and participation certificates shall be noncumulative without preference between classes.

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

Patronage Dividends

The Board, by adoption of a resolution, may obligate the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net earnings for the fiscal year. For 2009, 2008 and 2007, by adoption of resolutions in December 2008, 2007 and 2006, the Board obligated the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net taxable earnings. The 2008 and 2007 patronage distributions were paid 100 percent in cash, based on the proportion of each eligible borrower's net interest margin as compared to the total net interest margin earned by all eligible borrowers. The 2009 patronage distribution will be paid on the same basis. The Board of Directors reserves the right to change the basis for the payment of patronage dividends in future years.

If the Association meets its capital adequacy standards after accruing the patronage distribution, the dividend distribution may be paid in cash, authorized stock of the Association, allocations of earnings retained in an allocated member's equity account, or any one or more of such forms of distribution. The Board determined that 100 percent of the 2009, 2008 and the 2007 patronage dividends would be paid in cash by check.

Transfer

Each owner or joint owners of Class C Common Stock is entitled to a single vote, regardless of the number of shares owned, while Class A Common Stock, Class D Preferred Stock and Class C Participation Certificates provide no voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting

stock. Common stock and participation certificates may be transferred to any person eligible to hold such class of equity under the bylaws. Class D Preferred Stock may be transferred in the manner set forth in the resolution authorizing its issuance.

Impairment

Under the capitalization bylaw of the Association, all stock and participation certificates are considered to be issued "at risk" and are not protected under the Farm Credit Act. Any net losses recorded by the Association shall first be applied against unallocated retained earnings. To the extent that such losses would exceed unallocated retained earnings, resulting in impairment of the Association's capital stock, such losses would be applied pro rata to each share and/or unit outstanding in the class, in the following order:

1. Classes A and C Common Stock and Class C Participation Certificates
2. Class D Preferred Stock

Liquidation

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

1. Class D Preferred Stock
2. Classes A and C Common Stock and Participation Certificates

D. **Accumulated Other Comprehensive Income (Loss)**

The Association reports accumulated other comprehensive income (loss) in its Consolidated Statement of Changes in Members' Equity. At December 31, 2009, 2008 and 2007 the balances recognized were $745, $913 and $862, respectively. The balances at year end were due to FASB guidance on employers' accounting for other postretirement plans. Refer to Note 10 for additional information.

Note 9 — Income Taxes

At December 31, 2009, 2008 and 2007, the Association recorded no provision or benefit for federal income taxes.

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

	December 31,		
	2009	2008	2007
Federal tax at statutory rate	$ (292)	$ 907	$ 1,402
Patronage distributions	(209)	(603)	(816)
Tax-exempt FLCA (earnings) losses	498	(472)	(570)
Other	3	168	(16)
Provision (benefit) for income taxes	$ –	$ –	$ –

As discussed in Note 2-H Income Taxes, the Board and management intend that the ACA will have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends, resulting in zero federal income tax. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences and has no net deferred tax assets.

There were no potential uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2009 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and Puerto Rico income tax jurisdictions are 2006 and forward.

Note 10 — Employee Benefit Plans

The Association participates in district sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, and a defined contribution 401(k) plan. Financial information regarding each of these plans follows.

All employees of the Association are eligible to participate in either the defined benefit final average pay retirement plan (the FAP Plan) or the defined benefit cash balance retirement plan (the CB Plan.) These two plans are noncontributory and include eligible District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution under the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. As a participant in these District defined benefit plans, the Association funded $958 for 2009, $500 for 2008, and $0 for 2007, through its note payable to the Bank. Plan expenses included in salaries and employee benefits were $1,036 for 2009, $159 for 2008, and $263 for 2007. Additional financial information for the Plans may be found in the District's Annual Report.

The Association participates in a defined contribution Districtwide 401(k) plan. For employees hired on or prior to December 31, 2002, the Association contributes $.50 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. Employee contributions are not to exceed the maximum contribution limit as established by Hacienda. Employer contributions to this plan were $55, $55, and $51 for the years ended December 31, 2009, 2008 and 2007, respectively.

Total retirement benefits expenses of $1,091, $214, and $314 for the years ended December 31, 2009, 2008 and 2007, respectively, were included as part of salaries and benefits expense.

The Association also sponsors a fully insured plan providing certain benefits (primarily health and dental care) for its active

and retired employees. The measurement date for the plan prior to 2008 was September 30. As required by FASB guidance, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," (see below) the plan measurement date for 2008 was December 31. Postretirement benefits other than pensions (primarily health care benefits) included in salaries and employee benefits expense were $61 for 2009, $68 for 2008 and $301 for 2007.

Effective January 1, 2008, the Association moved its eligible retiree and long-term disabled participants into a Medicare Advantage Plan, rather than electing to apply for a direct reimbursement of prescription drug claims through Medicare Part D.

In September 2006, the FASB issued guidance on employers' accounting for defined benefit pension and other postretirement plans, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of this guidance were adopted at December 31, 2007 by the Association.

FASB guidance also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for other postretirement benefit plans. The Standard provided two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association allowed for the use of the measurements determined for the prior year end. Under this alternative, other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) was reflected as an adjustment to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings by $17.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income (AOCI). These amounts are subsequently recognized as components of net periodic benefit costs over time. For 2009 and 2008, $(168) and $51 has been recognized as a net debit and credit, respectively, to AOCI to reflect these elements.

The funding status and the amounts recognized in the Consolidated Balance Sheets of the Association for other postretirement benefit plans follows:

	Other Postretirement Benefits		
	2009	**2008**	**2007**
Change in benefit obligation			
Benefit obligation at beginning of year	$ 1,131	$ 1,199	$ 2,867
Service cost	19	23	36
Interest cost	69	93	169
Plan participants' contributions	19	26	26
Plan amendments	–	–	–
Actuarial loss (gain)	142	(82)	(1,769)
Benefits paid	(100)	(128)	(130)
Benefit obligation at end of year	$ 1,280	$ 1,131	$ 1,199
Change in plan assets			
Fair value of plan assets, beginning of year	$ –	$ –	$ –
Employer contributions	81	102	104
Plan participants' contributions	19	26	26
Benefits paid	(100)	(128)	(130)
Fair value of plan assets, end of year	$ –	$ –	$ –
Funded status	$ (1,280)	$ (1,131)	$ (1,199)
Fourth quarter contributions	–	–	25
Net amount recognized	$ (1,280)	$ (1,131)	$ (1,174)
Amounts recognized in the balance sheet consist of:			
Other postretirement benefit assets	$ –	–	–
Other postretirement benefit liabilities (included in other liabilities)	(1,280)	(1,131)	(1,174)
Net amount recognized	$ (1,280)	(1,131)	(1,174)

The following represent the amounts included in accumulated other comprehensive income at December 31 and not yet recognized as a component of net periodic benefit cost:

	Other Postretirement Benefits		
	2009	**2008**	**2007**
Net actuarial loss (gain)	$ (1,061)	$ (1,313)	$ (1,367)
Prior service costs (credit)	192	242	304
Net transition obligation (asset)	124	158	201
Total amount recognized in AOCI	$ (745)	$ (913)	$ (862)

Accreted into net income during 2010 will be $(2) of actuarial income related to other postretirement benefits; specifically, $34 of net transition obligation (asset), $50 of prior service costs, and $(86) of net actuarial loss (gain).

The net periodic benefit cost for other postretirement benefit plans included in the Consolidated Statements of Operations is comprised of the following:

	Other Postretirement Benefits		
	2009	**2008**	**2007**
Service cost	$ 19	$ 18	$ 36
Interest cost	69	75	169
Amortization of prior service cost	50	50	50
Amortization of transition obligation (asset)	33	33	33
Amortization of net (gain)loss	(110)	(108)	13
Net periodic benefit cost	$ 61	$ 68	$ 301

Other changes in plan assets and benefit obligations recognized in other comprehensive income are as follows:

	2009	2008
Net loss (gain)	$ 142	$ (82)
Amortization of prior service cost	(34)	(62)
Amortization of transition obligation (asset)	(50)	(42)
Amortization of net loss (gain)	110	135
Total recognized in other comprehensive income	168	51
Total recognized in net periodic benefit cost and other comprehensive income	$ 229	$ 34

Weighted average assumptions used to determine benefit obligations at December 31, 2009 and 2008, and at September 30, 2007 are as follows:

	Other Postretirement Benefits		
	2009	2008	2007
Discount rate	6.00%	6.25%	6.45%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Other Postretirement Benefits		
	2009	2008	2009
Discount rate	6.25%	6.45%	6.00%

For measurement purposes, annual rates of increase of 6.50 percent through 8.50 percent in the per capita cost of covered health benefits were assumed for 2010. The rates were assumed to step down to 5.00 percent in 2016 and remain at that level thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage point change in the assumed healthcare cost trend rates would have the following effects:

	1% Point Increase	1% Point Decrease
Effect on total service cost and interest cost components	$ 14	$ (11)
Effect on year-end post-retirement benefit obligation	$ 164	$ (136)

Contributions

The Association expects to contribute $87 to its other postretirement plan in 2010.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Other Postretirement Benefits
2010	87
2011	87
2012	90
2013	87
2014	95
Years 2015 — 2019	450

Note 11 — Related Party Transactions

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

Total loans to such persons at December 31, 2009 amounted to $3,128. During 2009, $620 of new loans and advances were made and repayments totaled $917. In the opinion of management, none of these loans outstanding at December 31, 2009 involved more than a normal risk of collectibility.

Note 12 — Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and commercial letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2009, $33,145 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2009, the Association had outstanding $2,079 of standby letters of credit, with expiration dates ranging from December 31, 2009 to October 23, 2012. The maximum potential amount of future payments the Association may be required to make under these existing guarantees is $2,079.

A guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the guarantee commitment. The Association has determined the fair value of the guarantee commitment based upon the fees to be earned over the life of the guarantee. The fair value is updated periodically to reflect changes in individual guarantee amounts and the remaining life to maturity of the individual guarantees in the Association's inventory. At December 31, 2009, the Association's inventory of standby letters of credit had a fair value of $40 and was included in other liabilities.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because

their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

During 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). At December 31, 2009 there was an outstanding commitment of $40 to make additional equity purchases in the RBIC.

Actions are pending against the Association in which claims for monetary damages are asserted. Upon the basis of current information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association.

Note 13 — Fair Value Measurement

As described in Note 2, effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of 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 had no Level 1 assets or liabilities at December 31, 2009.

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 had no Level 2 assets and liabilities measured at fair value on a recurring basis at December 31, 2009.

Level 3

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

Level 3 assets at December 31, 2009 included impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value considered 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 was classified as a Level 3 asset at December 31, 2009. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at December 31, 2009 included standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2009 and 2008 for each of the fair value hierarchy levels:

	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 40	$ 40
Total Liabilities	$ –	$ –	$ 40	$ 40

	December 31, 2008			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 45	$ 45
Total Liabilities	$ –	$ –	$ 45	$ 45

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for 2009 and 2008:

	Standby Letters Of Credit
Balance at January 1, 2009	$ 45
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	(5)
Transfers in and/or out of level 3	–
Balance at December 31, 2009	$ 40

	Standby Letters Of Credit
Balance at January 1, 2008	$ 40
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	5
Transfers in and/or out of level 3	–
Balance at December 31, 2008	$ 45

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

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2009 and 2008 for each of the fair value hierarchy values are summarized below. As discussed in Note 2, fair value disclosure of nonfinancial instruments, such as other property owned, began in 2009.

	December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 2,614	$ 2,614	$ (2,319)
Other property owned	$ –	$ –	$ 600	$ 600	$ 89

	December 31, 2008				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 2,247	$ 2,247	$ (944)

Note 14 — Disclosures About Fair Value Of Financial Instruments

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

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

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

	December 31, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	$ 162	$ 162	$ 290	$ 290
Loans, net of allowance	$ 224,506	$ 224,989	$ 259,651	$ 260,658
Notes receivable from other Farm Credit Institutions	$ 10,000	$ 10,617	$ 10,000	$ 10,716
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 187,237	$ 187,910	$ 219,092	$ 219,954

	December 31, 2007	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 130	$ 130
Loans, net of allowance	$ 249,689	$ 249,930
Notes receivable from other Farm Credit Institutions	$ –	$ –
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 197,926	$ 198,128

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

A. **Cash:** The carrying value is primarily a reasonable estimate of fair value.

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

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected

future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

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

The carrying value of accrued interest approximates its fair value.

C. **Investment in AgFirst Farm Credit Bank:** Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 4, the net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying balance sheet. The Association owns 0.96 percent of the issued stock of the Bank as of December 31, 2009 net of any reciprocal investment. As of that date, the Bank's assets totaled $30.9 billion and shareholders' equity totaled $1.6 billion. The Bank's earnings were $309 million during 2009.

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.

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. **Notes Receivable from Other Farm Credit Institutions:** Fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.

Note 15 — Quarterly Financial Information (Unaudited)

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

	2009				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,144	$ 1,035	$ 1,009	$ 1,357	$ 4,545
Provision for (reversal of allowance for) loan losses	584	1,501	969	258	3,312
Noninterest income (expense), net	(554)	(624)	(522)	(393)	(2,093)
Net income (loss)	$ 6	$ (1,090)	$ (482)	$ 706	$ (860)

	2008				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,529	$ 1,322	$ 1,273	$ 1,396	$ 5,520
Provision for (reversal of allowance for) loan losses	–	–	524	402	926
Noninterest income (expense), net	(573)	(525)	(437)	(392)	(1,927)
Net income (loss)	$ 956	$ 797	$ 312	$ 602	$ 2,667

	2007				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,572	$ 1,640	$ 1,649	$ 1,632	$ 6,493
Provision for (reversal of allowance for) loan losses	28	–	19	12	59
Noninterest income (expense), net	(690)	(744)	(623)	(253)	(2,310)
Net income (loss)	$ 854	$ 896	$ 1,007	$ 1,367	$ 4,124

Note 16 – Subsequent Events

The Association has evaluated subsequent events and has determined that, except as described in Note 7, there are none requiring disclosure through March 12, 2010, which is the date the financial statements were issued.

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