

2009
ANNUAL REPORT
CHISHOLM TRAIL FARM CREDIT, ACA

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2009	2008	2007	2006	2005
Statement of Condition Data					
Loans	\$ 210,779	\$ 205,723	\$ 184,229	\$ 168,277	\$ 158,258
Less allowance for loan losses	913	763	688	643	503
Net loans	209,866	204,960	183,541	167,634	157,755
Investment in U.S. AgBank, FCB	10,432	10,432	10,432	10,432	9,893
Other assets	5,016	5,741	7,167	7,377	6,561
Total assets	\$ 225,314	\$ 221,133	\$ 201,140	\$ 185,443	\$ 174,209
Obligations with maturities of one year or less	\$ 3,528	\$ 6,060	\$ 6,271	\$ 5,760	\$ 4,132
Obligations with maturities longer than one year	185,977	180,253	161,655	147,809	140,082
Total liabilities	189,505	186,313	167,926	153,569	144,214
Capital stock (at-risk)	753	732	693	796	812
Unallocated retained earnings	35,055	34,087	32,520	31,078	29,183
Accumulated other comprehensive income	1	1	1	-	-
Total shareholders' equity	35,809	34,820	33,214	31,874	29,995
Total liabilities and shareholders' equity	\$ 225,314	\$ 221,133	\$ 201,140	\$ 185,443	\$ 174,209
For the Year Ended December 31					
	2009	2008	2007	2006	2005
Statement of Income Data					
Net interest income	\$ 5,655	\$ 5,027	\$ 4,943	\$ 4,651	\$ 4,083
Patronage distribution from U.S. AgBank, FCB	135	892	1,264	1,223	980
Provision for loan losses/(Loan loss reversal)	1,142	(129)	736	131	(106)
Noninterest expense, net	3,673	3,759	3,273	3,334	2,914
Provision for/(Benefit from) income taxes	8	56	158	(26)	107
Net income	\$ 967	\$ 2,233	\$ 2,040	\$ 2,435	\$ 2,148
Key Financial Ratios					
For the Year					
Return on average assets	0.45%	1.04%	1.07%	1.35%	1.36%
Return on average shareholders' equity	2.72%	6.48%	6.17%	7.87%	7.36%
Net interest income as a percentage of average earning assets	2.80%	2.54%	2.86%	2.97%	2.84%
Net charge-offs/(recoveries) as a percentage of average net loans	0.49%	(0.10%)	0.40%	(0.01%)	(<0.01%)
At Year End					
Shareholders' equity as a percentage of total assets	15.89%	15.75%	16.51%	17.19%	17.22%
Debt as a ratio to shareholders' equity	5.29:1	5.35:1	5.06:1	4.82:1	4.81:1
Allowance for loan losses as a percentage of loans	0.43%	0.37%	0.37%	0.38%	0.32%
Permanent capital ratio	13.87%	13.59%	14.82%	15.12%	17.01%
Total surplus ratio	13.53%	13.26%	14.48%	14.68%	16.51%
Core surplus ratio	11.19%	10.86%	11.21%	11.53%	12.22%
Net Income Distribution					
Cash patronage distributions paid	\$ 671	\$ 597	\$ 544	\$ 385	\$ 320
Cash patronage distributions payable	\$ -	\$ 672	\$ 603	\$ 549	\$ 394

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Dollars in thousands, except as noted)

The following discussion summarizes the financial position and results of operations of Chisholm Trail Farm Credit, ACA for the year ended December 31, 2009. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. You should read these comments along with the accompanying financial statements, footnotes and other sections of this report. The accompanying financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Business Overview
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.chisholmtrailfc.com, or upon request. We are located at 805 Chisholm Trail, Enid, Oklahoma 73701 or may be contacted by calling (800) 251-3722.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

We are one of approximately 90 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of north central, central and south central Oklahoma. The counties in our territory are listed in Note 1 of the accompanying financial statements. We make production and intermediate-term loans for agricultural production or operating purposes and long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses. Additionally, we provide other related services to our borrowers, such as credit life insurance. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

We obtain the funding for our lending and operations from U.S. AgBank, FCB (AgBank). AgBank is a cooperative of which we are a member. AgBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the District. We are materially affected by AgBank's financial condition and results of operations. The AgBank and AgBank District quarterly and annual reports are available free of charge by accessing AgBank's website, www.usagbank.com, or may be obtained at no charge by contacting us at 805 Chisholm Trail, Enid, Oklahoma 73701 or calling (800) 251-3722. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. Our current Services Agreement with AgVantis expires on December 31, 2011. We are a shareholder in AgVantis, along with all other AgVantis customers. Beginning in 2008, Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provided our payroll and human resource services.

ECONOMIC OVERVIEW

For many years, agriculture has experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values, and, to a lesser extent, government support programs. As a result, our financial results were positively impacted. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. High energy and fertilizer costs, higher feed costs, labor costs and availability, water costs and availability, increased market interest rates, adverse weather conditions and commodity price volatility can negatively impact the profitability of agricultural producers. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, our financial performance and credit quality measures would be negatively impacted. In the past year, conditions in the general and agricultural economy have been less favorable with the instability in the global markets and volatile production costs. Particularly affected have been dairy, poultry, fed cattle and ethanol. The negative impact from these less favorable conditions is somewhat lessened by the generally strong financial condition of our agricultural borrowers. However, borrowers who are more reliant on off-farm income sources may be more adversely impacted due to the weakened general economy.

Economic events created substantial turmoil in the financial sector and uncertainty in the credit markets in 2008 and 2009. During the latter part of 2009, the severe stress in the financial markets began to stabilize. The System's strong capital and liquidity position has enabled us to obtain the funding needed to fund loans to our farmer and rancher customers in response to loan demand.

In our territory, the 2009 wheat crop was below average due to dry conditions in the fall and early winter of 2008, and a late spring freeze caused a high percentage of wheat to be severely damaged. Yields ranged from total loss to average. The 2009-2010 crop is looking favorable, with sufficient rain in the fall creating optimal wheat planting conditions. The wheat pasture in our service area is as good as it has been for about the past three years. Hay production for 2009 was good, as early cuttings were met with limited interruption from rain. Mid to late summer cuttings were adversely affected by hot weather, then extended periods of rain. Hay supplies are down due to low carryover from the winter months. Energy prices continue to be a concern for the territory and state. Fuel costs are below last year's, which will help reduce input costs. Fertilizer prices have dropped significantly from this time last year. The drop in fertilizer costs will result in lower wheat input costs for the 2009-2010 wheat crop. Short-term interest rates were down to flat during 2009. Long-term interest rates decreased slightly during the first three months of 2009, increased 50-75 basis points during the second and third quarters of 2009, but have dropped 50-75 basis points in the fourth quarter of 2009. Cattle prices have been relatively stable during 2009. Cow numbers have been low during 2009 and have not resulted in a stronger replacement cow market. Land sales have declined from a year ago. The decline in sales has translated into a more stable price range, and a halt in dramatic price increases experienced in the previous 3 years. The better agricultural production properties seem to be holding up better than less productive or recreational land. There are fewer investors competing for land at this time.

LOAN PORTFOLIO

Total loan volume was \$210,779 at December 31, 2009, an increase of \$5,056, or 2.46%, from loans at December 31, 2008 of \$205,723, and \$26,550, or 14.41%, from loans at December 31, 2007 of \$184,229. The increase in loans was due to new loan volume as a result of concentrated marketing efforts. The types of loans outstanding at December 31 are reflected in the following table.

Type of Loan	2009		2008		2007	
	Volume	Percent	Volume	Percent	Volume	Percent
Real estate mortgage	\$ 116,597	55.32%	\$ 115,749	56.27%	\$ 98,541	53.49%
Production and intermediate-term	90,885	43.12%	86,203	41.90%	82,293	44.67%
Agribusiness:						
Cooperatives	85	0.04%	110	0.05%	150	0.08%
Processing and marketing	1,708	0.81%	3,513	1.71%	3,003	1.63%
Farm related business	353	0.17%	148	0.07%	242	0.13%
Rural residential real estate	1,151	0.54%	—	—	—	—
Total	\$ 210,779	100.00%	\$ 205,723	100.00%	\$ 184,229	100.00%

Real estate mortgage volume increased to \$116,597, compared with \$115,749 at year-end 2008, primarily due to marketing efforts to grow the long-term portfolio. These long-term mortgage loans are primarily used to purchase,

refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By law, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies.

The production and intermediate-term volume increased 5.43% to \$90,885 compared with 2008 loan volume of \$86,203 primarily due to the net effect of marketing efforts which resulted in new lending, increased loan demand from wheat pasture cattle purchases, and some operating losses incurred by borrowers. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

In 2009, five new rural residential real estate loans were made, but decreases were noted in agribusiness, processing and marketing loans. At December 31, 2009 approximately 4% of real estate mortgage volume, 6% of production and intermediate-term volume and 100% of processing and marketing volume were purchased interests in loans.

Portfolio Diversification

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by participations purchased and sold, geographic locations served and commodities financed, as illustrated in the following three tables.

We purchase participation interests in loans from other System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System entities to reduce risk and comply with lending limits we have established. Our volume of participations purchased and sold as of December 31 follows.

	2009	2008	2007
Participations purchased	\$ 11,602	\$ 18,664	\$ 16,769
Participations sold	\$ 12,052	\$ 12,997	\$ 11,537

The geographic distribution of loans by county at December 31 follows. As previously mentioned we purchase loans outside our territory, which are included in Other in the following table.

	2009	2008	2007
Alfalfa	1.92%	1.74%	2.38%
Blaine	4.82%	5.18%	3.63%
Caddo	4.89%	3.57%	2.84%
Canadian	3.18%	2.90%	3.06%
Carter	3.03%	3.00%	2.92%
Cleveland	0.44%	0.48%	0.27%
Comanche	0.71%	0.56%	0.93%
Cotton	2.03%	2.02%	2.32%
Garfield	4.88%	4.91%	4.39%
Garvin	4.89%	4.23%	0.95%
Grady	8.80%	8.30%	8.74%
Grant	3.65%	3.78%	4.83%
Jefferson	12.97%	13.54%	14.01%
Kingfisher	3.17%	3.65%	3.18%
Love	0.80%	0.67%	0.85%
Major	0.54%	0.47%	0.25%
McClain	3.30%	4.47%	2.78%
Murray	0.63%	0.68%	0.96%
Okfuskee	1.67%	1.16%	1.29%
Pontotoc	6.42%	4.02%	4.60%
Pottawatomie	1.79%	1.83%	1.83%
Seminole	1.11%	1.23%	1.40%
Stephens	4.40%	4.57%	4.89%
Other	19.96%	23.04%	26.70%
Total	100.00%	100.00%	100.00%

We have entered into either formal or informal agreements with most of the associations in the states of Oklahoma, Colorado, Kansas and New Mexico. These agreements eliminate territorial restrictions and allow associations to make loans in any other association's territory regardless of a borrower's place of residence, location of operations, location of loan security or location of a headquarters.

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for its products; however, a large percentage of agricultural operations includes more than one commodity.

SIC Category	December 31		
	2009	2008	2007
Cattle/Livestock	81.94%	81.43%	84.56%
General crops	11.92%	9.38%	8.59%
Wheat	2.40%	2.72%	2.32%
Dairy	1.06%	1.15%	0.79%
Other	2.68%	5.32%	3.74%
Total	100.00%	100.00%	100.00%

Our loan portfolio contains a concentration of cattle and general crop producers. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities impacted and the magnitude and duration of the adverse agricultural conditions to our borrowers.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and are likely to be more affected by weaknesses in the general economy. Of our loan volume at December 31, 2009, approximately 92% consists of borrowers with income not solely from agricultural sources, an increase from approximately 90% for 2008 and 2007.

Small loans (less than \$250 thousand) accounted for 33.20% of loan volume at December 31, 2009. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The table below details loan principal by dollar size at December 31.

(Range in thousands)	2009		2008		2007	
	Amount outstanding	Number of loans	Amount outstanding	Number of loans	Amount outstanding	Number of loans
\$1 - \$250	\$ 69,986	976	\$ 68,050	975	\$ 62,346	976
\$251 - \$500	41,692	118	41,304	116	34,066	100
\$501 - \$1,000	36,352	51	38,159	53	31,308	46
\$1,001 - \$5,000	62,749	37	58,210	34	56,509	33
Total	\$ 210,779	1,182	\$ 205,723	1,178	\$ 184,229	1,155

Approximately 18% of our loan volume is attributable to ten borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

Credit guarantees with government agencies of approximately \$151 at year-end 2009, \$153 at year-end 2008 and \$155 at year-end 2007 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers and to manage our exposure to interest rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated 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. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2009.

	Less than 1 year	1 – 3 years	3 – 5 years	Over 5 years	Total
Commitments to extend credit	\$ 39,000	\$ 19,531	\$ 1,875	\$ 4,529	\$ 64,935
Standby letters of credit	143	45	32	–	220
Commercial letters of credit	109	–	14	–	123
Total commitments	\$ 39,252	\$ 19,576	\$ 1,921	\$ 4,529	\$ 65,278

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 contractual amounts are not reflected on the Consolidated Statement of Condition 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 we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual, restructured, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Year-end comparative information regarding high risk assets in the portfolio, including accrued interest, follows:

	2009	2008	2007
Nonaccrual loans:			
Real estate mortgage	\$ 438	\$ –	\$ 328
Production and intermediate-term	104	1,906	978
Total nonaccrual loans	542	1,906	1,306
Total high risk assets	\$ 542	\$ 1,906	\$ 1,306
Nonaccrual loans to total loans	0.26%	0.93%	0.71%
High risk assets to total loans	0.26%	0.93%	0.71%
High risk assets to total shareholders' equity	1.51%	5.47%	3.93%

We had no loans classified as restructured or 90 days past due still accruing interest, and no other property owned for the years presented.

Total high risk assets decreased \$1,364, or 71.56%, to \$542 at December 31, 2009 compared with year-end 2008.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased \$1,364 compared with December 31, 2008. During 2008, one large poultry processor filed for bankruptcy protection during the fourth quarter and was transferred into nonaccrual. During December 2009, the processor emerged from bankruptcy and was reinstated to accrual status. One loan comprises approximately 80% of the nonaccrual volume. This is a real estate loan which is now in foreclosure. The following table provides additional information on nonaccrual loans as of December 31.

	2009	2008	2007
Nonaccrual loans current as to principal and interest	\$ –	\$ 1,832	\$ 328

For the years presented, we had no cash basis nonaccrual loans and no restructured loans in nonaccrual status.

High risk asset volume is anticipated to increase somewhat in 2010. Due to the overall economy and negative price projections on most of our commodities, nonaccrual volume is expected to increase slightly, while the percent of nonaccruals to total loans is projected to remain fairly constant.

Credit Quality

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS), 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 as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

The following table presents statistics based on UCS related to the credit quality of the loan portfolio, including accrued interest at December 31.

	2009	2008	2007
Acceptable	95.31%	98.00%	96.16%
OAEM	3.35%	0.95%	1.58%
Substandard	1.34%	1.05%	2.26%
Total	100.00%	100.00%	100.00%

Recent economic conditions have created challenges for some borrowers and our credit quality has declined slightly. Loans classified as "Acceptable" and "OAEM" were 98.66% at December 31, 2009 and 98.95% at December 31, 2008. We had no loans classified as Doubtful or Loss for any of the three years presented. With our borrowers' generally strong financial positions and the continued emphasis on sound underwriting standards, the credit quality of our loan portfolio remains strong. Agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. While credit quality is anticipated to remain sound in 2010, we expect that the less favorable economic conditions and less government support programs will lead to a weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans remained at a low level of 0.25% at December 31, 2009, compared with 0.13% at December 31, 2008.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable losses identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses as of December 31.

	2009	2008	2007
Balance at beginning of the year	\$ 763	\$ 688	\$ 643
Charge-offs:			
Real estate mortgage	288	–	–
Production and intermediate-term	828	–	695
Total charge-offs	\$1,116	\$ –	\$ 695
Recoveries:			
Production and intermediate-term	124	204	4
Net charge-offs/(recoveries)	\$ 992	\$ (204)	\$ 691
Provision for loan losses/(Loan loss reversal)	1,142	(129)	736
Balance at December 31	\$ 913	\$ 763	\$ 688
Net charge-offs/(recoveries) to average net loans	0.49%	(0.10%)	0.40%

The following table presents the allowance for loan losses by loan type as of December 31.

	2009	2008	2007
Real estate mortgage	\$ 109	\$ 102	\$ 118
Production and intermediate-term	767	638	558
Agribusiness	35	23	12
Rural residential real estate	2	–	–
Total	\$ 913	\$ 763	\$ 688

The allowance for loan losses increased \$150 from December 31, 2008, to \$913 at December 31, 2009. The increase in allowance for loan losses was due to the net result of the provision for loan losses totaling \$1,142 recorded and net charge-offs of \$992 recorded for two nonaccrual loans. Overall, charge-off activity remains low

relative to the size of our loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 is shown in the following table.

	2009	2008	2007
Allowance as a percentage of:			
Loans	0.43%	0.37%	0.37%
Impaired loans	168.45%	40.03%	52.68%

Although the allowance for loan losses increased at December 31, 2009 from December 31, 2008, impaired loans were significantly reduced in 2009 primarily as a result of a large nonaccrual loan that was transferred from nonaccrual to accrual status prior to year-end previously discussed.

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and constructive credit and related services to young, beginning and small (YBS) farmers and ranchers. Our mission is to meet the credit needs of young, beginning, and small farmers and ranchers to the fullest extent of their credit worthiness. The FCA regulatory definitions for YBS farmers and ranchers are shown below.

- Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
- Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than \$250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The following table outlines our percentage of YBS loans as a percentage of our loan portfolio (by number) as of December 31. The USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2007 USDA Agricultural Census, which is the most current data available. A loan may be included in more than one category.

	USDA	2009	2008	2007
Young	31.17%	16.41%	17.15%	17.92%
Beginning	31.06%	22.84%	22.33%	23.29%
Small	30.46%	66.58%	65.28%	66.32%

We establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. Our goals are as follows:

- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and,
- Implement effective outreach programs to attract YBS farmers and ranchers.

During 2009, we supported through both financial assistance and attendance, a number of marketing and outreach programs such as scholarships, seminars, livestock shows, and speech contests, along with other activities and educational opportunities directed toward YBS farmers and ranchers.

Quarterly reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. We have developed quantitative targets to monitor our progress. Results for 2009 are presented in the following table.

	Young	Beginning	Small
Loan Volume			
2009 Goal	\$ 42,500	\$ 51,000	\$ 96,250
2009 Actual	\$ 35,439	\$ 49,634	\$ 96,528
Number of Loans			
2009 Goal	210	270	770
2009 Actual	194	270	787

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize existing loan underwriting standards, which are broad enough to allow sufficient flexibility to support YBS applicants, along with tools such as co-signers, guarantees, and joint loans.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio and also in our unfunded loan commitments and standby letters of credit. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are developed and utilized to determine an applicant's operational, financial, and management resources available for repaying debt within the terms of the note or loan agreement. 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 – to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital – ability of the operation to survive unanticipated risks; and,
- conditions – intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, we cannot have loan commitments to one borrower for more than 25% of our permanent capital. Through lending delegations, AgBank further restricts individual lending limits to one borrower to 15% of permanent capital; exceptions must be reported to AgBank. Within these parameters, we set our own lending limits to manage loan concentration risk. Lending limits are established for individual loan size, commodity type, special lending programs and participation lending.

We have established internal lending delegations to properly control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, complexity, type and risk, as well as the expertise of the credit staff member. Larger and more complex loans are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members.

The majority of our lending is first mortgage real estate loans which must be secured by a first lien. Production and intermediate-term lending accounts for most of the remaining volume and is also typically secured. Collateral evaluations are made within FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified appraiser. Certain appraisals must be performed by individuals with a state certification or license.

We use a Combined System Risk Model (Model) which is a two-dimensional risk rating system that estimates each loan's probability of default and loss given default. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. The Model is utilized in loan and portfolio management processes. It is also used in allowance for loan losses estimates, as it contains much more portfolio granularity, particularly related to acceptable loan classification under the UCS. The Model's 14-point scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category and one loss category. In addition, this Model serves as the basis for economic capital modeling.

RESULTS OF OPERATIONS

Earnings Summary

In 2009, we recorded net income of \$967, compared with \$2,233 in 2008, and \$2,040 in 2007. The return on average assets was 0.45% in 2009, 1.04% in 2008 and 1.07% in 2007. The return on average shareholders' equity was 2.72% in 2009, 6.48% in 2008 and 6.17% in 2007. The decrease in net income, the return on average assets, and the return on average shareholders equity for 2009 was primarily due to the provision for loan losses of \$1,142 recorded in 2009 compared to a loan loss reversal of \$129 in 2008. Also, in 2009 AgBank notified us that they changed their patronage program whereby patronage will be paid annually, after the first of the year, to its members. Previously, patronage was paid quarterly and as a result patronage earnings in 2009 were reduced from 2008. The following table presents the changes in the significant components of net income from the previous year.

	2009 vs. 2008	2008 vs. 2007
Net income, prior year	\$ 2,233	\$ 2,040
Increase/(Decrease) from changes in:		
Interest income	(1,318)	(1,415)
Interest expense	1,946	1,499
Net interest income	628	84
Provision for loan losses	(1,271)	865
Noninterest income	(776)	(351)
Noninterest expense	105	(507)
Provision for income taxes	48	102
Total (decrease)/increase in net income	(1,266)	193
Net income, current year	\$ 967	\$ 2,233

Net Interest Income

Net interest income for 2009 was \$5,655, compared with \$5,027 for 2008 and \$4,943 for 2007. The table below provides an analysis of the individual components of the change in net interest income during 2009 and 2008.

	2009 vs. 2008	2008 vs. 2007
Net interest income, prior year	\$ 5,027	\$ 4,943
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	(1,631)	(2,925)
Interest rates paid	2,002	2,432
Volume of interest-bearing assets and liabilities	133	577
Interest income on nonaccrual loans	124	—
Increase in net interest income	628	84
Net interest income, current year	\$ 5,655	\$ 5,027

The following table illustrates net interest margin and the average interest rates on loans and debt cost and interest rate spread.

	For the Year Ended December 31		
	2009	2008	2007
Net interest margin	2.80%	2.54%	2.86%
Interest rate on:			
Average loan volume	5.30%	6.06%	7.76%
Average debt	2.82%	3.95%	5.53%
Interest rate spread	2.48%	2.11%	2.23%

The increase in interest rate spread and net interest margin resulted from a 76 basis point decrease in interest rate on average loan volume and a 113 basis point decrease in interest rates on average debt. Though the Federal Reserve lowered rates in 2009, borrower rates were not lowered in an effort to offset reduced earnings as a result of the change in the AgBank patronage program discussed earlier and the provision for loan losses recorded in 2009.

Provision for Loan Losses/(Loan Loss Reversals)

We review our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is necessary based on our assessment of the probable losses in our loan portfolio. We recorded a provision for loan losses of \$1,142 in 2009, compared with loan loss reversal of \$129 in 2008 and net provision for loan losses of \$736 in 2007. The provision for loan losses recorded during 2009 was primarily due to charge-offs on two nonaccrual loans. The loan loss reversal recorded in 2008 was primarily due to a recovery recorded as a result of a substantial paydown of a large nonaccrual loan, a reduction in the exposure at default of the loan portfolio, and an overall improvement in the risk profile. The provision for loan losses recorded during 2007 was primarily due to the net effect of a charge-off recorded and a reduction in the overall risk profile for the year.

Noninterest Income

During 2009, we recorded noninterest income of \$226, compared with \$1,002 in 2008 and \$1,353 in 2007. Patronage distributions from AgBank are our primary source of noninterest income. Beginning in 2009, patronage from AgBank, except for certain priority patronage, is to be paid annually rather than quarterly. As a result, our patronage was significantly reduced in 2009, compared with 2008 and 2007. Patronage received was \$135 in 2009,

\$892 in 2008, and \$1,264 in 2007. All patronage was paid in cash. Noninterest income also includes loan fees, financially related services income and other noninterest income.

Noninterest Expense

Noninterest expense for 2009, decreased \$105, or 2.71%, to \$3,764 compared with 2008. Significant components of noninterest expense for each of the three years ended December 31 are compared in the following table.

	Percent of Change				
	2009	2008	2007	2009/2008	2008/2007
Salaries & employee benefits	\$ 2,078	\$ 2,146	\$ 1,855	(3.17%)	15.69%
Occupancy & equipment	213	214	188	(0.47%)	13.83%
Purchased services from AgVantis	285	268	244	6.34%	9.84%
Supervisory & examination costs	82	77	75	6.49%	2.67%
Other	733	853	742	(14.07%)	14.96%
Total operating expense	3,391	3,558	3,104	(4.69%)	14.63%
Farm Credit Insurance Fund premium	373	311	258	19.94%	20.54%
Total noninterest expense	\$ 3,764	\$ 3,869	\$ 3,362	(2.71%)	15.08%

For the year ended December 31, 2009, total operating expense decreased \$167, or 4.69%, compared with the year ended December 31, 2008. The decrease in salaries and benefits expense in 2009 was a result of a reduction in workforce. Operating expenses in general decreased primarily as a result of our concentrated effort to reduce expenses for 2009. The Insurance Fund premium increased \$62 to \$373 due to an increase in the premium rate and an increase in volume. As of July 1, 2008, the Farm Credit System Insurance Corporation began charging premiums based on debt rather than loan volume. Rates were increased to 20 basis points during 2009 compared with 15 basis points on debt for the third quarter of 2008 and 18 basis points for the fourth quarter of 2008. Rates were 15 basis points on average loan volume during the first six months of 2008 and during 2007. During 2010, the Insurance Fund premium is anticipated to decrease significantly.

Provision for income taxes

We recorded \$8 in provision for income taxes during 2009, compared with \$56 in 2008 and \$158 in 2007. The decrease was primarily due to the adverse effect on taxable income related to the charge-offs recorded.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Obligations that require liquidity include paying our note with AgBank, funding loans and other commitments, and funding operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction and liquidate nonearning assets. Our direct loan with AgBank, cash on hand and loan repayments provide adequate liquidity to fund our on-going operations and other commitments. Even with the volatility in the financial markets, we anticipate liquidity levels will be adequate to meet our obligations.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for operations through a borrowing relationship with AgBank. Our note payable to AgBank is collateralized by a pledge to AgBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA). The GFA is subject to renewal at its expiration date of April 30, 2012 in accordance with normal business practices. The annual average principal balances of the note payable to AgBank were \$175,127 in 2009, \$171,592 in 2008 and \$147,990 in 2007.

We plan to continue to fund lending operations through the utilization of our borrowing relationship with AgBank, retained earnings from current and prior years and from borrower stock investment. AgBank's primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Bank Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets have experienced significant volatility, we have been able to obtain sufficient funding to support our lending and business operations.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with AgBank which allows for loans to be match-funded. Borrowings from AgBank match the pricing, maturity, and option

characteristics of our loans to borrowers. AgBank manages interest rate risk through the direct loan pricing and their asset/liability management processes. Although AgBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess funds with AgBank at a fixed rate as a part of AgBank's Earnings Stabilization Management Program (ESMP). This enables us to stabilize earnings without significantly increasing our overall interest rate risk position.

Our ESMP commitment balance and the average interest rate as of December 31 in the various maturities are reflected below:

	2009		2008		2007	
	Balance	Average Rate	Balance	Average Rate	Balance	Average Rate
Maturing in 1 year or less	\$ 900	1.39%	\$ -	-	\$ 1,000	5.53%
Maturing in 1 to 3 years	200	2.26%	-	-	-	-
Total	\$ 1,100	1.55%	\$ -	-	\$ 1,000	5.53%

Funds Management

We offer variable, fixed, adjustable prime-based and LIBOR-based rate loans to borrowers. Our Board of Directors determines the interest rate charged based on the following factors: 1) the interest rate charged by AgBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2009 totaled \$35,809, compared with \$34,820 at December 31, 2008 and \$33,214 at December 31, 2007. Capital includes stock purchased by our borrowers and retained earnings accumulated through net income less patronage distributed to borrowers. Our capital position is reflected in the following ratio comparisons.

	2009	2008	2007
Debt to shareholders' equity	5.29:1	5.35:1	5.06:1
Shareholders' equity as a percent of loans	16.99%	16.93%	18.03%
Shareholders' equity as a percent of assets	15.89%	15.75%	16.51%

Retained Earnings

Our retained earnings increased \$968 to \$35,055 at December 31, 2009 from \$34,087 at December 31, 2008. The increase was primarily a result of net income.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, this includes increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid patronage of \$671 in 2009, \$597 in 2008 and \$544 in 2007. All patronage paid for these years was paid in cash. After consideration, the Board did not declare a patronage to be paid on 2009 earnings in 2010. The Board concluded that as the change in the AgBank patronage program and the provision for loan losses recorded in 2009 resulted in a significant reduction in Association net income, it was prudent to retain earnings for capital reserves.

Stock

Our total stock increased \$21 to \$753 at December 31, 2009, from \$732 at December 31, 2008. The increase was due to \$100 of stock issuances, partially offset by \$79 of stock retirements. We require a stock investment for each borrower. On November 1, 2006, the Board of Directors approved the implementation of a Borrower Level Stock Program. This program allows stock to be assigned to a borrower instead of a loan which reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective note amount(s) of each borrower's loan(s). For those borrowers who own loan-level stock, the stock investment is the lesser of one thousand dollars or 2.00% of the amount of the loan.

Accumulated Other Comprehensive Income and Losses (AOCI)

Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). On December 31, 2007, the Association adopted FASB guidance which requires recognition of the Plan's unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to AOCI.

Capital Plan and Regulatory Requirements

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

FCA regulations establish minimum capital standards expressed as a ratio of capital to assets, taking into account relative risk factors for all System institutions. In general, the regulations provide for a relative risk weighting of assets and establish a minimum ratio of permanent capital, total surplus and core surplus to risk-weighted assets. Our capital ratios as of December 31 and the FCA minimum requirements follow.

	Regulatory Minimum	2009	2008	2007
Permanent capital ratio	7.00%	13.87%	13.59%	14.82%
Total surplus ratio	7.00%	13.53%	13.26%	14.48%
Core surplus ratio	3.50%	11.19%	10.86%	11.21%

As of December 31, 2009, we exceeded the regulatory minimum capital ratios and are expected to do so throughout 2010. However, the minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2009, we have exceeded our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

REGULATORY MATTERS

As of December 31, 2009, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

On October 31, 2007, the Farm Credit Administration published an advance notice of proposed rulemaking in the Federal Register with respect to the consideration of possible modifications to the Farm Credit Administration's risk-based capital rules for Farm Credit System institutions that are similar to the standardized approach delineated in the Basel II Framework. The Farm Credit Administration requested comments to facilitate the development of a proposed rule that would enhance its regulatory capital framework and more closely align minimum capital requirements with risks taken by System institutions. Comments on the advance notice of proposed rulemaking were due no later than December 31, 2008. Final action is planned for the second quarter of 2010.

On June 16, 2008, the Farm Credit Administration published a proposed rule in the Federal Register that would authorize Banks, Associations or service corporations to invest in rural communities, i.e., communities that have fewer than 50,000 residents and are outside of an urbanized area, under certain conditions. The proposed rule would authorize two types of rural community investments: (1) investment in debt securities that would involve projects or programs that benefit the public in rural communities, and (2) equity investment in venture capital funds, which funds create economic opportunities and jobs in rural communities by providing capital to small or start-up businesses. Under the proposed rule, these investments would be limited to 150% of the institution's total surplus. The comment period closed August 15, 2008. FCA action is planned for the second quarter of 2010.

GOVERNANCE**Board of Directors**

We are governed by an eight-member board that oversees the management of our Association. Of these directors, seven are elected by the shareholders and one is appointed by the elected directors. The Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, evaluates and compensates the chief executive officer;
- establishes the strategic plan and approves the annual operating plan and budget;
- oversees the lending operations;
- advises and counsels management on significant issues we face; and,
- oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial service cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

The elected directors, as borrowers, have a vested interest in ensuring our Association remains strong and successful. However, our borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

Audit Committee

The Audit Committee is responsible for assisting the Board. The Committee is composed of three members. During 2009, eight meetings were held. The Audit Committee responsibilities include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and,
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls and auditing matters.

Executive Committee

The Executive Committee is responsible for reviewing and approving loans which exceed the CEO's delegated lending authority and all new participation loans. The Committee is composed of three members.

Credit Review Committee

The Credit Review Committee is responsible for reviewing, upon written request from a borrower who has received notice of a decision to deny an application for restructuring a distressed loan, those adverse decisions which are eligible for review per policy. The Committee is composed of three members.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Committee is composed of three members. The Committee annually reviews and evaluates the compensation policies and plans for senior officers and employees and approves the overall compensation program for senior officers and employees, including benefits programs.

Other Governance

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We strive to maintain strong governance and financial reporting through the following actions:

- a system for the receipt and treatment of whistleblower complaints,
- a code of ethics for our President/CEO, Chief Financial Officer and Chief Credit Officer,
- open lines of communication between the independent auditors, management, and the Audit Committee,
- "plain English" disclosures,
- officer certification of accuracy and completeness of the consolidated financial statements, and
- information disclosure through our website.

FORWARD-LOOKING INFORMATION

Our discussion 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,” and “will,” or other variations of these terms are intended to identify forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying consolidated financial statements. The following is a summary of certain critical policies.

Allowance for Loan Losses

The allowance for loan losses is our best estimate of the amount of probable losses existing in and inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. We determine the allowance for loan losses based on a regular evaluation of the loan portfolio, which generally considers recent historic charge-off experience adjusted for relevant factors.

Loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

Changes in the factors we consider in the evaluation of losses in the loan portfolio could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. See Notes 2 and 3 to the accompanying consolidated financial statements for detailed information regarding the allowance for loan losses.

CUSTOMER PRIVACY

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.



Chisholm Trail Farm Credit

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Phone: 580/237-2535
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REPORT OF MANAGEMENT

The financial statements of Chisholm Trail Farm Credit, ACA (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2009 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, the Association contracts with an outside auditor to audit the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate. The financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Audit Committee consults regularly with management and reviews the results of the examinations by the various entities named above. The independent auditors have direct access to the Audit Committee.

The undersigned certify the Chisholm Trail Farm Credit, ACA Annual Report has been reviewed, prepared 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.

Larry Cochran
Chairman of the Board

Butch McComas
President and Chief Executive Officer

Terry L. Turnbow
Chief Financial Officer

March 16, 2010



Chisholm Trail Farm Credit

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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes three members from the Board of Directors of Chisholm Trail Farm Credit, ACA (Association). In 2009, eight Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2009.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2009 were \$12,253 for audit services, and \$5,900 for tax services.

The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's financial statements for the year ended December 31, 2009 (the "Audited Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance). Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2009.

Lonnie Sellers, Chairman of the Audit Committee

Audit Committee Members

Verl M. Daugherty
Kevin Smith

March 16, 2010

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2009	2008	2007
ASSETS			
Loans	\$ 210,779	\$ 205,723	\$ 184,229
Less allowance for loan losses	913	763	688
Net loans	209,866	204,960	183,541
Cash	600	1,629	1,387
Accrued interest receivable	3,337	3,012	4,824
Investment in U.S. AgBank, FCB	10,432	10,432	10,432
Premises and equipment, net	452	536	397
Prepaid benefit expense	429	381	311
Deferred tax asset	12	9	12
Other assets	186	174	236
Total assets	\$ 225,314	\$ 221,133	\$ 201,140
LIABILITIES			
Note payable to U.S. AgBank, FCB	\$ 184,565	\$ 177,949	\$ 158,237
Advance conditional payments	2,358	4,316	4,618
Accrued interest payable	1,412	2,304	3,418
Patronage distributions payable	-	672	603
Accrued benefits liability	237	232	269
Other liabilities	933	840	781
Total liabilities	189,505	186,313	167,926
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Capital stock	753	732	693
Unallocated retained earnings	35,055	34,087	32,520
Accumulated other comprehensive income	1	1	1
Total shareholders' equity	35,809	34,820	33,214
Total liabilities and shareholders' equity	\$ 225,314	\$ 221,133	\$ 201,140

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

Consolidated Statement of Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2009	2008	2007
INTEREST INCOME			
Loans	\$ 10,688	\$ 12,006	\$ 13,421
Total interest income	10,688	12,006	13,421
INTEREST EXPENSE			
Note payable to U.S. AgBank, FCB	5,025	6,862	8,225
Other	8	117	253
Total interest expense	5,033	6,979	8,478
Net interest income	5,655	5,027	4,943
Provision for loan losses/(Loan loss reversal)	1,142	(129)	736
Net interest income after provision for loan losses/(loan loss reversal)	4,513	5,156	4,207
NONINTEREST INCOME			
Financially related services income	21	18	18
Loan fees	27	18	35
Patronage distribution from U.S. AgBank, FCB	135	892	1,264
Other noninterest income	43	74	36
Total noninterest income	226	1,002	1,353
NONINTEREST EXPENSE			
Salaries and employee benefits	2,078	2,146	1,855
Occupancy and equipment	213	214	188
Purchased services from AgVantis, Inc.	285	268	244
Farm Credit Insurance Fund premium	373	311	258
Supervisory and examination costs	82	77	75
Other noninterest expense	733	853	742
Total noninterest expense	3,764	3,869	3,362
Income before income taxes	975	2,289	2,198
Provision for income taxes	8	56	158
Net income	\$ 967	\$ 2,233	\$ 2,040

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2006	\$ 796	\$ 31,078	\$ -	\$ 31,874
Net income		2,040		2,040
Adjustment to initially apply FASB guidance			1	1
Stock issued	251			251
Stock retired	(354)			(354)
Patronage distributions:				
Cash		(603)		(603)
Other		5		5
Balance at December 31, 2007	693	32,520	1	33,214
Net income		2,233		2,233
Stock issued	178			178
Stock retired	(139)			(139)
Patronage distributions:				
Cash		(672)		(672)
Other		6		6
Balance at December 31, 2008	732	34,087	1	34,820
Net income		967		967
Stock issued	100			100
Stock retired	(79)			(79)
Patronage distributions: Other		1		1
Balance at December 31, 2009	\$ 753	\$ 35,055	\$ 1	\$ 35,809

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 967	\$ 2,233	\$ 2,040
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	117	138	128
Provision for loan losses/(Loan loss reversal)	1,142	(129)	736
Gains on sales of premises and equipment	(26)	(35)	(17)
Change in assets and liabilities:			
(Increase)/Decrease in deferred tax asset	(3)	3	154
(Increase)/Decrease in accrued interest receivable	(325)	1,812	(251)
(Increase)/Decrease in prepaid benefit expense	(48)	(70)	141
(Increase)/Decrease in other assets	(12)	62	(29)
(Decrease)/Increase in accrued interest payable	(892)	(1,114)	326
Increase/(Decrease) in accrued benefits liability	5	(37)	(165)
Increase in other liabilities	93	59	36
Total adjustments	51	689	1,059
Net cash provided by operating activities	1,018	2,922	3,099
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	(6,048)	(21,290)	(16,643)
Expenditures for premises and equipment, net	(7)	(242)	(58)
Net cash used in investing activities	(6,055)	(21,532)	(16,701)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to U.S. AgBank, FCB	6,616	19,712	13,520
(Decrease)/Increase in advance conditional payments	(1,958)	(302)	587
Capital stock retired	(79)	(139)	(354)
Capital stock issued	100	178	251
Cash patronage distributions paid	(671)	(597)	(544)
Net cash provided by financing activities	4,008	18,852	13,460
Net (decrease)/increase in cash	(1,029)	242	(142)
Cash at beginning of year	1,629	1,387	1,529
Cash at end of year	\$ 600	\$ 1,629	\$ 1,387
SUPPLEMENTAL CASH INFORMATION:			
Cash paid/(received) during the year for:			
Interest	\$ 5,925	\$ 8,093	\$ 8,152
Income taxes	\$ 68	\$ (37)	\$ -
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Net charge-offs/(recoveries)	\$ 992	\$ (204)	\$ 691
Patronage distributions payable	\$ -	\$ 672	\$ 603
Change in accumulated other comprehensive income	\$ -	\$ -	\$ 1

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

- A. Organization: Chisholm Trail Farm Credit, ACA and its subsidiaries, Chisholm Trail Farm Credit, FLCA, (Federal Land Credit Association (FLCA)) and Chisholm Trail Farm Credit, PCA, (Production Credit Association (PCA)), (collectively called “the Association”) are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Alfalfa, Blaine, Caddo, Canadian, Carter, Cleveland, Comanche, Cotton, Garfield, Garvin, Grady, Grant, Jefferson, Kingfisher, Love, Major, McClain, Murray, Okfuskee, Pontotoc, Pottawatomie, Seminole and Stephens in the state of Oklahoma.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The most recent significant amendment of 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 approximately 90 associations.

U.S. AgBank, FCB (AgBank), its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. AgBank provides the majority of funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to AgBank and certain associations. On December 31, 2009, the District consisted of AgBank, 24 Agricultural Credit Association (ACA) parent companies, which each have two wholly owned subsidiaries, (a FLCA and a PCA), two FLCAs and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and the PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing 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 into the Insurance Fund based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as two 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 is 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. AgBank passes this premium expense through to the Association based on the Association’s average adjusted note payable with AgBank.

- 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 also offers credit life insurance.

The Association’s financial condition may be impacted by factors affecting AgBank. Certain District expenses are allocated to the associations. Disclosure of certain accounting policies related to these costs is included in the U.S. AgBank District Annual Report to Shareholders (District’s Annual Report). The

District's Annual Report is available free of charge on AgBank's website, www.usagbank.com; or may be obtained at no charge by contacting the Association at 805 Chisholm Trail, Enid, Oklahoma 73701 or calling (800) 251-3722. Association shareholders will be provided with a copy of the District's Annual Report, which includes the combined financial statements of AgBank and its related associations, and AgVantis, upon request. The District's Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. In addition, the District's Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities by the Insurance Corporation.

The lending and financial services offered by AgBank are described in Note 1 of the District's Annual Report.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes as applicable. Actual results may differ from these estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. Beginning in 2008, Farm Credit Foundations began providing our human resource services previously provided by AgBank. These services are reflected in other noninterest expense.

The consolidated financial statements include the accounts of Chisholm Trail Farm Credit, PCA and Chisholm Trail Farm Credit, FLCA. All significant inter-company transactions have been eliminated in consolidation.

- A. Recently Issued or Adopted Accounting Pronouncements: In June 2009, the Financial Accounting Standards Board (FASB) issued, "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. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. This Statement was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Association adopted the codification in the third quarter of 2009 with no impact on the Association's financial statements, but resulted in changes to disclosures.

In May 2009, the FASB issued guidance on "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. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized 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 effective for interim or annual periods ending after June 15, 2009. The adoption of this guidance had no impact on the Association's financial statements, but did result in additional disclosure.

In April 2009, the FASB issued guidance on "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. It was effective for interim periods ending after June 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The adoption did not have a material impact on the Association.

- B. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans made for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield.

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

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded investment asset balance (if accrued in prior years).

When loans are in nonaccrual status, loan payments are generally applied against the recorded investment in the loan asset. Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest payments 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 at the time they are determined to be uncollectible.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions 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.

- C. Cash: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at banks.
- D. Investment in AgBank: The Association's investment in AgBank is in the form of Class A Stock. The minimum required investment in AgBank is 5.00 percent of average direct loan volume, net of excess investment. The required investment will be adjusted on a quarterly basis to reflect changes in direct loan volume. The required investment may consist of AgBank surplus attributed to the Association, patronage based stock and purchased stock.
- E. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. 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 operations. Maintenance and repairs are charged to operating expense and improvements are capitalized.
- F. Other Assets and Other Liabilities: Other assets are comprised primarily of accounts receivable, prepaid expenses, and investment in Farm Credit institutions. Significant components of other liabilities primarily include accounts payable and employee benefits.
- G. Advance Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. Amounts received on short- and intermediate-term loans are recorded in the Consolidated Statement of Condition as liabilities and represent borrower payments in excess of the related loan balance or amounts to which the borrower has unrestricted access. A limited amount of funds, reserved for future loan repayments and placed in trust fund accounts, is permitted on long-term loans. These amounts are netted against loans on the Consolidated Statement of Condition. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.
- H. Employee benefit plans: Substantially all employees of the Association participate in the Ninth Farm Credit District Pension Plan (Pension Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan). The Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. Detailed financial information for the Pension Plan may be

found in the District's Annual Report. The Pension Plan was closed to new participants beginning January 1, 2007, amended and then terminated during 2007 for those participants with benefits only in the Account Balance Provisions of the Pension Plan. The accrued benefits for these participants were distributed from the Pension Plan and were transferred to the 401(k) Plan. The Association matches a certain percentage of employee contributions to the 401(k) Plan. The 401(k) Plan costs are expensed monthly as funded.

The Association also participates in the Farm Credit Foundations Retiree Medical Plan. These postretirement benefits (other than pensions) are provided to eligible retired employees of the Association. Prior to 2007, only employees who were hired before 2004 could become eligible for employer subsidies under the Retiree Medical Plan. These benefits and the anticipated costs of these benefits were accrued during the period of the employee's active service. During 2007, the Retiree Medical Plan was amended to only continue employer subsidized benefits for current retirees. Accrued balances as of September 30, 2007 for eligible employees were converted to present value and transferred to the Pension Plan as an additional pension benefit.

- I. Patronage Distribution from AgBank: Patronage distributions are made by AgBank annually, except for certain priority patronage. The Association records patronage distributions from AgBank upon receipt of the distribution.
- J. Income Taxes: As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state or local laws.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts reflected in the consolidated financial statements and tax bases of assets and liabilities. In addition, a valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to AgBank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on AgBank's post-1992 unallocated earnings. AgBank currently has no plans to distribute unallocated AgBank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

- K. Other Comprehensive Income/Loss: Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders' equity but are excluded from net income. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.
- L. Fair Value Measurement: FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds that relate to deferred compensation and supplemental retirement plans. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates and (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets include loans and other property owned.

The fair value disclosures are reported in Note 14.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2009	2008	2007
Real estate mortgage	\$ 116,597	\$ 115,749	\$ 98,541
Production and intermediate-term	90,885	86,203	82,293
Agribusiness:			
Cooperatives	85	110	150
Processing and marketing	1,708	3,513	3,003
Farm related business	353	148	242
Rural residential real estate	1,151	–	–
Total loans	\$ 210,779	\$ 205,723	\$ 184,229

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, 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.

SIC Category	December 31					
	2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent
Cattle/Livestock	\$ 172,712	81.94%	\$ 167,520	81.43%	\$ 155,784	84.56%
General crops	25,125	11.92%	19,297	9.38%	15,825	8.59%
Wheat	5,059	2.40%	5,596	2.72%	4,274	2.32%
Dairy	2,234	1.06%	2,365	1.15%	1,456	0.79%
Other	5,649	2.68%	10,945	5.32%	6,890	3.74%
Total	\$ 210,779	100.00%	\$ 205,723	100.00%	\$ 184,229	100.00%

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 secured 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 loan to value ratios in excess of the regulatory maximum.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following presents information relating to impaired loans including accrued interest.

	December 31		
	2009	2008	2007
Nonaccrual loans:			
Current as to principal and interest	\$ –	\$ 1,832	\$ 328
Past due	542	74	978
Total nonaccrual loans	542	1,906	1,306
Total impaired loans	\$ 542	\$ 1,906	\$ 1,306

There were no loans classified as accruing restructured or accruing loans 90 days or more past due for the years presented.

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

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 and average impaired loans.

	Year Ended December 31		
	2009	2008	2007
Interest income recognized on:			
Nonaccrual loans	\$ 124	\$ –	\$ –
Accrual loans 90 days or more past due	6	3	40
Interest income recognized on impaired loans	\$ 130	\$ 3	\$ 40
Average impaired loans	\$ 3,089	\$ 1,143	\$ 1,089

The following table presents information concerning impaired loans.

	December 31		
	2009	2008	2007
Impaired loans with related allowance	\$ –	\$ –	\$ 978
Impaired loans with no related allowance	542	1,906	328
Total impaired loans	\$ 542	\$ 1,906	\$ 1,306
Allowance on impaired loans	\$ –	\$ –	\$ 25

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

	For the Year Ended December 31		
	2009	2008	2007
Interest income which would have been recognized under the original loan terms	\$ 133	\$ 313	\$ 264
Less: interest income recognized	124	–	–
Interest income not recognized	\$ 9	\$ 313	\$ 264

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

	2009	2008	2007
Balance at beginning of the year	\$ 763	\$ 688	\$ 643
Charge-offs:			
Real estate mortgage	288	–	–
Production and intermediate-term	828	–	695
Total charge-offs	\$1,116	\$ –	\$ 695
Recoveries:			
Production and intermediate-term	124	204	4
Net charge-offs/(recoveries)	\$ 992	\$ (204)	\$ 691
Provision for loan losses/(Loan loss reversal)	1,142	(129)	736
Balance at December 31	\$ 913	\$ 763	\$ 688
Net charge-offs/(recoveries) to average net loans	0.49%	(0.10%)	0.40%

A breakdown of the allowance for loan losses follows.

	December 31					
	2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent
Real estate mortgage	\$ 109	11.94%	\$ 102	13.37%	\$ 118	17.15%
Production and intermediate-term	767	84.01%	638	83.62%	558	81.11%
Agribusiness	35	3.83%	23	3.01%	12	1.74%
Rural residential real estate	2	0.22%	—	—	—	—
Total	\$ 913	100.00%	\$ 763	100.00%	\$ 688	100.00%

Credit guarantees with government agencies of approximately \$151 at year-end 2009, \$153 at year-end 2008 and \$155 at year-end 2007 were outstanding.

NOTE 4 – INVESTMENT IN AGBANK

The Association is required to maintain an investment in AgBank equal to 5.00 percent of average direct loan volume, net of excess investment. The Association's investment in AgBank may consist of AgBank surplus attributed to the Association, patronage based stock and purchased stock. The Association's stock investment in AgBank is in the form of Class A Stock. The investment in AgBank is adjusted on a quarterly basis to reflect changes in direct loan volume, attributed surplus and stock investment balances. If needed to meet capital adequacy requirements, AgBank may require the Association to purchase at-risk stock subject to a limit of one percent of the Association's average Direct Loan Volume in a twelve month period.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2009	2008	2007
Land	\$ 134	\$ 124	\$ 123
Buildings and leasehold improvements	1,267	1,265	1,160
Furniture, equipment and automobiles	755	779	704
	2,156	2,168	1,987
Less: accumulated depreciation	1,704	1,632	1,590
Total	\$ 452	\$ 536	\$ 397

NOTE 6 – NOTE PAYABLE TO AGBANK

The Association's indebtedness to AgBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA) which provides for a \$200 million line of credit. The GFA and promissory note are subject to periodic renewals in the normal course of business. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2009. Substantially all borrower loans are match-funded with AgBank. Payments and disbursements are made on the note payable to AgBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by AgBank based on the terms and conditions of the borrowing. The weighted average interest rate was 2.87 percent for the year ended December 31, 2009. The line of credit expires on April 30, 2010; however, the Association expects renewal of the line of credit. Upon expiration of the line of credit, undisbursed amounts available under the line of credit expire. So long as the Association is not in material default under the GFA, AgBank will continue to make advances (that do not exceed the amount payable under the promissory note) for undisbursed outstanding commitments on borrower loans which are not in default. The note payable to AgBank will continue until it has been fully discharged.

The Association has the opportunity to commit funds with AgBank in the Earnings Stabilization Management Program at a fixed rate for a specified timeframe. Participants in the program receive a fixed rate credit on the committed funds balance classified as a reduction of interest expense. These committed funds, which are netted against the note payable to AgBank, as of December 31, follow.

	2009	2008	2007
Committed funds	\$ 1,100	\$ –	\$ 1,000
Average rates	1.55%	–	5.53%

Under the Farm Credit Act, the Association is obligated to borrow only from AgBank, unless AgBank gives approval to borrow elsewhere. AgBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2009, the Association's notes payable are within the specified limitations.

NOTE 7 – SHAREHOLDERS' EQUITY

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

A. Capital Stock

In accordance with the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00 percent of the amount of the loan to 10.00 percent of the loan. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. Currently, the Association has a stock requirement of the lesser of one thousand dollars or 2.00 percent of the amount of the borrower's combined loan volume.

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

B. Regulatory Capitalization Requirements and Restrictions

The 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 this 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 consolidated financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. The FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of risk-adjusted assets of 3.50 percent. At December 31, 2009, the Association's permanent capital was 13.87 percent, total surplus was 13.53 percent and core surplus ratio was 11.19 percent.

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

C. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2009. Unless otherwise indicated all classes of stock have a par value of \$5.00.

- Class A Common Stock (Nonvoting, at-risk, no shares outstanding) – Issued in exchange for Class B Common Stock or Class C Common Stock; as a patronage refund; as a dividend; or in exchange for allocated surplus. Retirement is at the sole discretion of the Board of Directors.
- Class B Common Stock (Voting, at-risk, 149,857 shares outstanding) – Issued solely to, and shall be acquired by, borrowers and other applicants who are farmers, ranchers, or producers or harvesters of aquatic products and who are eligible to vote. Each Class B Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association,

any outstanding Class B Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

- Class C Common Stock (Nonvoting, at-risk, 600 shares outstanding) – Class C Common Stock may be issued to borrowers or applicants who are: (a) rural residents, including persons eligible to hold voting stock, to capitalize rural housing loans; (b) persons or organizations furnishing farm-related services; (c) other persons or organizations who are eligible to borrow from or participate with the Association but who are not eligible to hold voting stock. Class C Common Stock may be issued to any person who is not a shareholder but who is eligible to borrow from the Association for the purpose of qualifying such person for technical assistance, financially related services and leasing services offered by the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class C Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.
- Class D Common Stock (Nonvoting, at-risk, 1 share outstanding, par value of one thousand dollars) – Issued to AgBank or to any person through direct sale.
- Class E Preferred Stock (Nonvoting, at-risk, no shares outstanding, par value as may be authorized by bylaws) - Issued to any person or entity pursuant to a plan approved by the board and by stockholders as authorized by bylaws.

D. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of common stock out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained earnings. The Association made a cash patronage distribution of \$671 in 2009, \$597 in 2008 and \$544 in 2007.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: First, pro rata to the holders of Class E Preferred Stock; second, pro rata to all classes of common stock; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance; fourth, to the holders of allocated surplus evidenced by non-qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance. Any remaining assets of the Association after such distributions shall be distributed to present and former patrons on a patronage basis, to the extent practicable.

At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. No patronage distribution was declared in 2009.

E. Other Comprehensive Income

The Association reports other comprehensive income in its Consolidated Statement of Changes in Shareholder's Equity. As more fully described in Note 2, other comprehensive income results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits of income of \$1 as of December 31, 2009, 2008 and 2007. There were no other items affecting comprehensive income.

NOTE 8 – PATRONAGE DISTRIBUTION FROM AGBANK

The patronage distribution from AgBank was distributed in cash. Patronage paid by AgBank to the Association during 2009 was \$135, \$892 in 2008 and \$1,264 in 2007.

NOTE 9 – INCOME TAXES

The provision for/(benefit from) income taxes follows.

	Year Ended December 31		
	2009	2008	2007
Current:			
Federal	\$ 7	\$ 44	\$ 3
State	3	9	1
Deferred:			
Federal	(2)	3	130
State	–	–	24
Total provision for income taxes	\$ 8	\$ 56	\$ 158

The provision 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.

	Year Ended December 31		
	2009	2008	2007
Federal tax at statutory rate	\$ 331	\$ 778	\$ 747
State tax, net	2	7	17
Effect of nontaxable entity	(396)	(547)	(659)
Patronage distributions	–	(228)	(151)
Change in valuation allowance	82	56	206
Other	(11)	(10)	(2)
Provision for income taxes	\$ 8	\$ 56	\$ 158

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2009	2008	2007
Deferred income tax assets:			
Allowance for loan losses	\$ 171	\$ 163	\$ 201
Nonaccrual loan interest	364	282	194
Excess book depreciation > Tax depreciation	95	88	78
Gross deferred tax assets	630	533	473
Deferred tax asset valuation allowance	(587)	(496)	(433)
Sale of fixed assets	(31)	(28)	(28)
Gross deferred tax liability	(31)	(28)	(28)
Net deferred tax asset	\$ 12	\$ 9	\$ 12

The calculation of tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings. The Association recorded a valuation allowance of \$587 during 2009, \$496 during 2008 and \$433 during 2007. The Association will continue to evaluate the likely realization of these deferred tax assets and adjust the valuation allowance accordingly.

The Association has no uncertain tax positions to be recognized as of December 31, 2009, 2008 or 2007. The tax years that remain open for federal and major state income tax jurisdictions are 2006 and forward.

NOTE 10 – EMPLOYEE BENEFIT PLANS

The employees of the Association may participate in the District's defined benefit pension plan (Pension Plan). The Pension Plan is noncontributory and covers a significant number of employees. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. As a participant in the District's defined benefit plan, the Association funded \$178 for 2009 and \$183 for 2008, through its note payable to AgBank. The Pension Plan required no funding during 2007. Pension Plan expenses included in salaries and employee benefits expense were \$130 for 2009, \$113 for 2008, and \$142 for 2007. As of January 1, 2007, the Pension Plan was closed to new participants. During 2007, those participants with benefits only in the Account Balance provisions of the Pension Plan were spun off into a separate pension plan,

which was then terminated. The termination resulted in immediate expense recognition of \$28 by the Association for its proportional share which is included in the above Pension Plan expenses. Additional financial information for the Pension Plan may be found in the District's Annual Report.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were expense of \$18 for 2009, \$15 for 2008 and income of \$149 for 2007. During 2008, the life insurance benefit in the plan was funded by a one-time buy-out contribution with an insurance company resulting in income recognition of \$5 and additional cash contributions of \$36. Prior to 2007, only employees who were hired before 2004 could become eligible for employer subsidies under the Retiree Medical Plan. As of September 30, 2007, the Retiree Medical Plan was amended to only continue employer subsidized benefits for current retirees. Accrued balances as of September 30 for eligible employees were converted to present value and transferred to the Pension Plan as an additional pension benefit. This amendment and termination of benefits resulted in the immediate recognition of income of \$187 by the Association for its proportional share which is included in the above Postretirement benefits expense. Additional financial information for this plan may be found in the District's Annual Report.

The Association participates in a District-wide non-qualified defined benefit Pension Restoration Plan that is unfunded. The purpose of the Pension Restoration Plan is to supplement a participant's benefits under the District's other retirement plans to the extent that such benefits are reduced by the limitations imposed by the Internal Revenue Code. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. There were no Pension Restoration Plan expenses included in salaries and employee benefits in 2009, 2008 and 2007.

In September 2006, the FASB issued guidance 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 the guidance were adopted at December 31, 2007. The guidance also requires that the benefit obligation and plan assets be measured as of the fiscal year-end for fiscal years ending after December 15, 2008. In fiscal 2007, the Association used a September 30 measurement date for pension and other postretirement benefit plans.

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plan:

	2009	2008	2007
Net actuarial gain	\$ 1	\$ 1	\$ 1
Total amount recognized in AOCI	\$ 1	\$ 1	\$ 1

Weighted average assumptions used to determine benefit obligation at December 31:

	Pension Benefits		
	2009	2008	2007
Discount rate	5.65%	6.35%	6.35%
Rate of compensation increase	5.00%	5.00%	5.00%

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

	Pension Benefits		
	2009	2008	2007
Discount rate	6.35%	6.35%	6.00%
Rate of compensation increase	5.00%	5.00%	5.00%

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan (Contribution Plan). The Association matches a certain percentage of employee contributions to the plan. Employer contributions to this plan were \$98 in 2009, \$103 in 2008 and \$67 in 2007.

NOTE 11 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association may enter 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 schedules and collateral, as those prevailing at the time for comparable transactions with other persons.

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board or employment.

Loan information to related parties at December 31 is shown below.

	2009	2008	2007
New loans	\$ 10,852	\$ 14,212	\$ 12,659
Repayments	\$ 9,639	\$ 15,072	\$ 11,132
Ending balance	\$ 5,167	\$ 3,954	\$ 4,814

In the opinion of management, none of these loans outstanding at December 31, 2009 involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid \$285 in 2009, \$268 in 2008 and \$244 in 2007 to AgVantis for technology services.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

There are no regulatory enforcement actions in effect for the Association.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2009, \$64,935 of commitments to extend credit and \$123 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credit to satisfy the financing needs of their borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2009, the Association had \$220 of standby letters of credit.

With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

NOTE 14 – FAIR VALUE MEASUREMENTS

Accounting 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. See Note 2 for additional information. Assets and liabilities measured at fair value on a recurring basis for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in nonqualified benefits trusts	\$ 4	\$ –	\$ –	\$ 4

The Association has no liabilities measured at fair value on a recurring basis at December 31, 2009.

The Association has no assets or liabilities measured at fair value on a non-recurring basis at December 31, 2009.

Valuation Techniques

As more fully discussed in Note 2 accounting guidance 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. The following represent a brief summary of the valuation techniques used by the Association for assets and liabilities:

Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

NOTE 15 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2009, 2008 and 2007. Quoted market prices are generally not available for certain 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 follow.

	December 31					
	2009		2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans, net	\$ 209,866	\$ 211,288	\$ 204,960	\$ 208,689	\$ 183,541	\$ 185,383
Cash	\$ 600	\$ 600	\$ 1,629	\$ 1,629	\$ 1,387	\$ 1,387
Assets held in nonqualified benefit trusts	\$ 4	\$ 4	\$ 4	\$ 4	\$ 5	\$ 5
Financial liabilities:						
Note payable to AgBank	\$ 184,565	\$ 186,834	\$ 177,949	\$ 181,873	\$ 158,237	\$ 160,585
Advance conditional payments	\$ 2,358	\$ 2,358	\$ 4,316	\$ 4,316	\$ 4,618	\$ 4,618

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 the value follows.

- A. 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. Since the discount rates are based on the Association's loan rates as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. 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 as described above, with appropriately higher interest rates, which reflect the uncertainty of continued cash flows.

- B. Cash: The carrying value is a reasonable estimate of fair value.

- C. Assets held in nonqualified benefits trusts: These assets relate to deferred compensation and supplemental retirement plans. As discussed in Note 2, the fair value of these assets is quoted net asset values.
- D. Note payable to AgBank: 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 interest rate that would be charged for borrowings. For purposes of this estimate, it is assumed the cash flow on the notes payable is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable.
- E. Advance conditional payments: The carrying value is a reasonable estimate of fair value.

NOTE 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,311	\$ 1,323	\$ 1,379	\$ 1,642	\$ 5,655
Provision for loan losses	161	209	49	723	1,142
Noninterest expense, net	951	878	826	891	3,546
Net income	\$ 199	\$ 236	\$ 504	\$ 28	\$ 967

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,295	\$ 1,272	\$ 1,216	\$ 1,244	\$ 5,027
Provision for loan losses/(Loan loss reversal)	70	(6)	(62)	(131)	(129)
Noninterest expense, net	693	661	765	804	2,923
Net income	\$ 532	\$ 617	\$ 513	\$ 571	\$ 2,233

	2007				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,266	\$ 1,263	\$ 1,169	\$ 1,245	\$ 4,943
Provision for loan losses/(loan loss reversal)	174	(13)	614	(39)	736
Noninterest expense, net	577	460	559	571	2,167
Net income/(loss)	\$ 515	\$ 816	\$ (4)	\$ 713	\$ 2,040

NOTE 17 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 16, 2010, which is the date the financial statements were available to be issued.

DISCLOSURE INFORMATION REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

(Amounts in Whole Dollars)

DESCRIPTION OF BUSINESS

The description of the territory served, persons eligible to borrow, types of lending activities engaged in and financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the financial statements, "Organization and Operations," included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from "Management's Discussion and Analysis" (MD&A) included in this annual report to shareholders.

DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding the properties of the Association:

Location	Description	Form of Ownership
805 Chisholm Trail Enid, Oklahoma	Office Building	Owned
1902 S. 81 Highway Duncan, Oklahoma	Office Building & 2.39 Acres Land	Owned
1027 Choctaw Chickasha, Oklahoma	Office Building	Owned
1420 N. Clarence Nash Blvd. Watonga, Oklahoma	Office Building	Owned

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

Information required to be disclosed in this section is incorporated herein by reference from Note 12 to the financial statements, "Regulatory Enforcement Matters," and Note 13 to the financial statements, "Commitments and Contingencies," included in this annual report to shareholders.

DESCRIPTION OF CAPITAL STRUCTURE

Information required to be disclosed in this section is incorporated herein by reference from Note 7 to the financial statements, "Shareholders' Equity," included in this annual report to shareholders.

DESCRIPTION OF LIABILITIES

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 6 to the financial statements, "Note Payable to AgBank," included in this annual report to shareholders.

The description of advance conditional payments is incorporated herein by reference to Note 2 to the financial statements, "Summary of Significant Accounting Policies," to the financial statements, included in this annual report to shareholders.

The description of contingent liabilities, required to be disclosed in this section is incorporated herein by reference from Note 13 included in this annual report to shareholders.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2009, required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Consolidated Financial Data," included in this annual report to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

"Management's Discussion and Analysis," which appears within this annual report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The following represents certain information regarding the directors and senior officers of the Association.

DIRECTORS

Larry Cochran	Chairman. Director since 1987. Current term expires in 2012. Mr. Cochran is a farmer/rancher with principal enterprises of wheat and alfalfa cash crops, stocker cattle, and a cow/calf operation. He also operates a livestock trucking business.
Paul D. Heath	Vice Chairman. Director since 1990. Current term expires in 2012. Mr. Heath is a farmer/rancher, with a principal enterprise of primarily stocker and feedlot cattle integrated with a cow herd and cash crop operation.
Verl M. Daugherty	Director since 1995. Current term expires in 2010. Mr. Daugherty is a farmer/rancher and operates VMD Farms, which consists of a cow/calf, stocker, wheat and alfalfa operation. Serves on the board of the Caddo County Oklahoma State University Alumni Club.
Kenneth Markes	Director since 1993. Current term expires in 2011. Mr. Markes is a farmer/rancher, with principal enterprises of stocker and feedlot cattle and a cow/calf operation, with wheat and soybeans as cash crops. He also serves as a director for the Bison Coop.
J. W. (Jack) Moore, Jr.	Director since 1989. Current term expires in 2010. Mr. Moore's principal enterprise is a dairy, in which he is a partner.
Lonnie Sellers	Appointed Director. Current term expires in 2011. Mr. Sellers is a retired Oklahoma State University Area Extension Agronomy Specialist for Southwest Oklahoma. Serves on the board of the Cameron Campus Ministries and the board of the Stephens County Oklahoma State University Alumni Association.
Kevin Smith	Director since 2001. Current term expires in 2010. Mr. Smith is a farmer/rancher. His principal enterprise is rye, wheat and corn as cash crops, integrated with a stocker cattle program.
Jack Wilson	Director since 1980. Current term expires in 2012. Mr. Wilson is a self-employed farmer/rancher whose principal enterprise is a stocker cattle operation.

SENIOR OFFICERS

P.L. (Butch) McComas, Jr.	President. Mr. McComas has served as President since August 1993 and was named to his present position in April 2002. Total Farm Credit System experience exceeds 24 years.
Steve Davenport	Executive Vice President/Chief Credit Officer. Mr. Davenport served as Vice President - Credit from January 1997 and was named to his present position in April 2002. Total experience with the Farm Credit System exceeds 17 years.
Terry L. Turnbow	Vice President/Chief Financial Officer. Mrs. Turnbow served as Senior Vice President - Operations from May 1995 and was named to her present position in April 2002. Total Farm Credit System experience exceeds 34 years.
Anita Eckhardt	Vice President-Operations. Mrs. Eckhardt served as Assistant Vice President - Operations from September 1990 and was named to her present position in April 2002. Total Farm Credit System experience exceeds 36 years.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of \$450 per day and \$225 per day for certain special meetings, and \$100 for conference calls, and were reimbursed mileage at the rate of \$0.55 cents per mile during 2009 while on official business.

Additional information for each director is provided below:

Name	Number of Days Served at		Compensation for		Total Compensation Paid During 2009
	Board Meetings	Other Official Activities	Board Meetings And Official Duties (1)	Audit Committee (2)	
Larry Cochran	10	7.0	\$ 7,750	\$ -	\$ 7,750
Paul D. Heath	10	7.0	7,750	-	7,750
Verl M. Daugherty	10	10.0	7,650	1,350	9,000
Kenneth Markes	10	13.0	10,000	550	10,550
J. W. (Jack) Moore, Jr.	10	7.0	7,750	-	7,750
Lonnie Sellers	10	10.5	7,525	2,000	9,525
Kevin Smith	10	11.0	7,750	1,900	9,650
Jack Wilson	10	4.0	6,300	-	6,300
Total Compensation			\$ 62,475	\$ 5,800	\$ 68,275

(1) Includes a conference call at \$100 each for six directors.

(2) Includes 3 conference calls at \$100 each for three directors, 1 additional call at \$100 for one director, and 3 days training for 3 directors.

Directors and senior officers are reimbursed for travel, subsistence and other expenses related to Association business according to Association policy. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to directors for travel, subsistence and other related expenses were \$41,884 in 2009, \$49,954 in 2008 and \$37,450 in 2007. Non-cash compensation to directors as a group during 2009 was less than \$5,000.

Information on the President/CEO and officer compensation is provided below. The President/CEO's salary is not included in officer salary.

President/ CEO	Year	Annual				Total
		Salary	Incentive	Long-term Incentive	Perquisites/Other*	
P.L.(Butch) McComas, Jr.	2009	\$ 159,167	\$ 12,084	\$ 14,000	\$ 2,130	\$ 187,381
P.L.(Butch) McComas, Jr.	2008	\$ 149,167	\$ 12,082	\$ 20,625	\$ 1,856	\$ 183,730
P.L.(Butch) McComas, Jr.	2007	\$ 142,381	\$ 9,581	\$ 19,250	\$ 2,822	\$ 174,034

Aggregate Number of Officers	Year	Annual				Total
		Salary	Incentive	Long-term incentive	Perquisites/Other*	
7	2009	\$ 616,981	\$ 44,975	\$ 36,762	\$ 9,760	\$ 708,478
7	2008	\$ 574,341	\$ 98,453	\$ 64,225	\$ 9,279	\$ 746,298
7	2007	\$ 555,038	\$ 90,756	\$ 55,654	\$ 6,066	\$ 707,514

- Other includes group term life insurance premiums, long-term disability insurance premiums, annual leave cash out, personal use of company vehicle and spousal travel.

In addition to base salary, employees above are eligible to earn and may be paid additional compensation based on an annual short-term incentive plan, which is tied to the overall business performance and the individual's rating. It is based on a fiscal year and is designed to motivate employees to exceed financial and credit quality performance targets approved by the Board of Directors. These targets may include return on assets, credit quality, loan volume, nonaccrual loan volume, new money or other key ratios. Some employees above were paid compensation based on a quarterly incentive plan tied to new loan volume. This incentive plan was terminated at December 31, 2008 with the final payments made in January 2009. Short-term incentives are shown in the year paid.

The Association also provides designated plans designed for long-term retention of key employees who directly impact the long-term performance of the Association. These plans are based on fiscal year targets established by the Board of Directors with payouts in the future, usually three years. Targets include loan volume, core earnings, credit administration, and credit quality. Long-term incentives are shown in the year earned.

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

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section are incorporated herein by reference from Note 11 to the financial statements, "Related Party Transactions," included in this annual report to shareholders.

INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS

There were no matters which came to the attention of management or the Board of Directors regarding involvement of senior officers or current directors in specified legal proceedings which are required to be disclosed in this section.

RELATIONSHIP WITH U.S. AGBANK, FCB (AGBANK)

The Association is materially affected by AgBank's financial condition and results of operations.

The Association's statutory obligation to borrow from AgBank is discussed in Note 6. Financial assistance agreements between the Association and AgBank are discussed in Note 7. Association requirement to invest in AgBank and AgBank's ability to access capital of the Association is discussed in Note 4 to the financial statements, "Investment in AgBank." AgBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity.

AgBank is required to distribute its Annual Report to shareholders of the Association if a "significant event," as defined by FCA regulations occurs.

RELATIONSHIP WITH INDEPENDENT AUDITORS

There were no changes in independent auditors since the prior annual report to shareholders and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 16, 2010, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

AGBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of AgBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with AgBank's Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 805 Chisholm Trail, Enid, Oklahoma 73701-1236 or may be contacted by calling (580) 237-2535. The reports may also be obtained free of charge by visiting AgBank's website at www.usagbank.com.