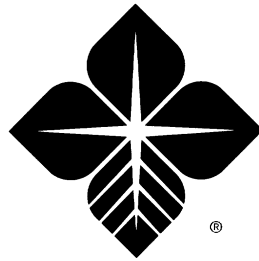




**First Quarter 2009**  
Financial Report to Stockholders



**REPORT OF MANAGEMENT**

The undersigned certify that this report has been prepared and reviewed in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.



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Roger Brist, Chief Executive Officer  
April 24, 2009



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Dennis Walker, Chairman, Board of Directors  
April 24, 2009



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Joe Valladares, Vice President of Finance  
April 24, 2009

**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

*(Dollars in thousands except as noted)*

The following commentary reviews the financial performance of the AgriLand, Farm Credit Services (Agricultural Credit Association), referred to as the Association for the quarter and nine months ended March 31, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 AgriLand, Farm Credit Services Annual Report.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

**Significant Events:**

The Association's first quarter results were stronger than expected. Net income for the first quarter was \$1,154 a \$581 increase as compared to the same period in 2008. The increase in net income stems primarily from increases in spread margins and loan fees. Furthermore, the Association's provision adjustment of \$49 was a small decrease to earnings as compared to 2008 when the Association recorded a \$944 provision for loan losses. The reduction in provisions was a positive event toward a healthy first quarter in 2009. Loan growth for the first quarter was 3.0 percent or \$11,337 higher as compared to December 31, 2008. Loan growth is expected to decelerate as borrowers begin to reduce inventories, adverse loans are collected, and tighter underwriting standards are implemented.

The Association's credit quality weakened during the first quarter of 2009. Substandard loans increased to \$27,168 in March 2009 as compared to \$21,436 in December 2008. This increase is attributed to commodity specific weaknesses affected by a weaker economy in the poultry and dairy industries. Management is optimistic this downward trend will end as several large adverse loans are expected to improve in late 2009. The Association has increased oversight measures to manage potential risk in the portfolio. The volatility in the national economy continues to shape a future of uncertainty for the financial industry. The Association will closely monitor its financial performance and ensure the organization's profitability and long-term sustainability is maintained for the betterment of its stockholders.

**Loan Portfolio:**

Association loan volume was \$395,218 at March 31, 2009 as compared to \$383,881 at December 31, 2008. This represents a 3.0% increase from year-end. The Association experienced a 12.0% increase in loan volume when compared to March 31, 2008 when loan volume was \$352,718. This increase in loans is primarily due to increased demands for forestry, field crops, nursery, and other commodities. Loan volume growth is also attributed to rural home, land, and recreational property financing. Total assets have shown a similar increase for the same period due to increased loan volume.

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. During the first quarter the Association's nonaccrual portfolio increased as compared to year-end 2008. This increase in nonaccrual loans is primarily attributed to an increase in nonperforming loans. The weak economy has affected the potential repayment capacity of some of the Association's producers specifically in the dairy and poultry industries.

<i>(dollars in thousands)</i>	March 31, 2009 (unaudited)		December 31, 2008	
	Amount	%	Amount	%
Nonaccrual	\$ 16,559	95.7%	\$ 12,657	98.3%
90 past due and still accruing interest	532	3.1%	-	0.0%
Other property owned, net	216	1.2%	216	1.7%
<b>Total</b>	<b>\$ 17,307</b>	<b>100.0%</b>	<b>\$ 12,873</b>	<b>100.0%</b>

**Results of Operations:**

For the three-month period ended on March 31, 2009 the Association's net income was \$1,154 as compared to a net income of \$573 for the same three-month period in 2008. The \$581 increase in net income for the first quarter is due to a

an increase in net interest income and decrease in provision reserve adjustments which was offset in part by an increase in operating expense for the three-month period in 2009 as compared to 2008. Net interest income increased by \$204 to \$2,556 as compared to \$2,352 in 2008. This is attributed to a combination of low interest rates and increased spreads on new loan actions.

The Association recorded \$8 in reserves and \$415 in charge-offs for the quarter ending March 31, 2009, and no recoveries and \$58 in charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.52 percent and 0.61 percent of total loans outstanding as of March 2009, and 2008, respectively.

**Liquidity and Funding Sources:**

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

(dollars in thousands)	March 31, 2009 (unaudited)	December 31, 2008
Note payable to the Bank	\$ 357,056	\$ 344,395
Accrued interest on note payable	1,076	1,204
<b>Total</b>	<b>\$ 358,132</b>	<b>\$ 345,599</b>

**Capital Resources:**

Total equity increased 11.4% from \$46,142 in December 31, 2008 to \$47,877 at March 31, 2009. This is attributed to earnings and capital investments made by new borrowers and reductions in patronage distributions during the period.

The Association's average permanent capital ratio was 10.6% for the three months ended March 31. The average total surplus ratio and core surplus ratio were 10.0% and 10.0%, respectively, for the same period. FCA regulations require a minimum of 7% permanent capital and total surplus ratio and a 3.5% core surplus ratio. Current day ratios are at 10.9% for permanent capital, total surplus and core surplus were 10.2% and 10.2%, respectively.

**Relationship with the Farm Credit Bank of Texas:**

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2008 Annual Report of Agriland, Farm Credit Services more fully describe the Association's relationship with the Bank.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at [fcf@farmcreditbank.com](mailto:fcf@farmcreditbank.com). The District makes its annual and quarterly stockholder reports available on its Web site at [www.farmcreditbank.com](http://www.farmcreditbank.com).

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports are available no later than 45 days after quarter-end. These reports can be obtained by writing to Agriland, Farm Credit Services, and 3210 WNW Loop 323, Tyler, Texas 75701 or calling (903)593-6609. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [jvalladares@agriland.com](mailto:jvalladares@agriland.com). Agriland makes its annual and quarterly stockholder reports available on its Web site at [www.agriland.com](http://www.agriland.com).

AGRILAND, FARM CREDIT SERVICES

**CONSOLIDATED BALANCE SHEET**

(dollars in thousands)

	<b>March 31</b> <b>2009</b> (unaudited)	December 31 2008	March 31 2008 (unaudited)
<b><u>ASSETS</u></b>			
Cash.....	\$ 309	\$ 82	\$ 144
Loans.....	395,218	383,881	352,718
Less allowance for loan losses.....	(2,067)	(2,216)	(2,141)
Net loans.....	393,151	381,665	350,577
Accrued interest receivable.....	5,471	5,179	8,037
Investment in Farm Credit Bank			
Capital stock.....	6,481	6,480	6,406
Other.....	620	1,397	1,028
Deferred tax assets.....	787	599	572
Other property owned, net.....	216	216	2
Premises and equipment, net.....	1,262	1,164	972
Other assets.....	1,167	155	536
Total assets.....	<u>\$ 409,464</u>	<u>\$ 396,937</u>	<u>\$ 368,274</u>
<b><u>LIABILITIES</u></b>			
Note payable to the Farm Credit Bank.....	357,056	344,395	319,238
Advance conditional payments.....	811	928	1,124
Accrued interest payable.....	1,076	1,204	1,249
Drafts outstanding.....	215	683	604
Patronage distributions payable.....	(272)	764	190
Other liabilities.....	2,729	2,821	2,907
Total liabilities.....	<u>\$ 361,615</u>	<u>\$ 350,795</u>	<u>\$ 325,312</u>
<b><u>MEMBERS' EQUITY</u></b>			
At-risk members' equity:			
Preferred stock.....	\$ 2,754	2,754	2,754
Capital stock and participation certificates.....	2,314	2,313	2,255
Allocated retained earnings.....	14,353	13,897	10,699
Unallocated retained earnings.....	28,291	27,045	27,000
Accumulated Other Comprehensive.....	137	133	254
Total members' equity.....	<u>47,849</u>	<u>46,142</u>	<u>42,962</u>
Total liabilities and members' equity.....	<u>\$ 409,464</u>	<u>\$ 396,937</u>	<u>\$ 368,274</u>

The accompanying notes are an integral part of these financial statements

AGRILAND, FARM CREDIT SERVICES

**CONSOLIDATED STATEMENT OF INCOME**

(dollars in thousands)

(unaudited)

	Quarter Ended	
	March 31	
	2009	2008
<b><u>INTEREST INCOME</u></b>		
Loans.....	\$ 5,787	\$ 6,183
Other.....	6	7
Total interest income.....	<u>5,793</u>	<u>6,190</u>
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the Bank.....	<u>3,237</u>	3,838
Net interest income.....	<u>2,556</u>	2,352
<b><u>PROVISION FOR LOSSES</u></b>		
Provision for loan losses.....	49	944
Net interest income after provision for losses.....	<u>2,507</u>	<u>1,408</u>
<b><u>NONINTEREST INCOME</u></b>		
Income from the Bank:		
Patronage income.....	205	376
Loan fees.....	255	178
Fees for financial related services.....	10	5
Other operating income.....	<u>9</u>	<u>9</u>
Total noninterest income.....	<u>479</u>	<u>568</u>
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits.....	1,100	843
Directors' expense.....	68	47
Purchased services.....	103	108
Travel.....	51	40
Occupancy and equipment.....	73	62
Communications.....	27	29
Advertising.....	34	35
Public and member relations.....	44	43
Supervisory and exam expense.....	56	53
FCSIC insurance expense.....	163	125
Losses on sales of other property owned.....	-	7
Other operating expenses.....	<u>109</u>	<u>81</u>
Total noninterest expense.....	<u>1,828</u>	<u>1,473</u>
Income before taxes.....	<u>1,158</u>	<u>503</u>
Benefit from income taxes.....	<u>4</u>	<u>(70)</u>
Net income.....	<u>\$ 1,154</u>	<u>\$ 573</u>

AGRILAND, FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)

(unaudited)

	Preferred Stock	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2007.....	\$ 2,754	\$ 2,201	\$ 11,683	\$ 25,626	\$ 288	\$ 42,552
Adjustment to beginning balance due to FAS No. 158 accounting change	-	-	-	-	(2)	(2)
Balance at January 1, 2008	<u>2,754</u>	<u>2,201</u>	<u>11,683</u>	<u>25,626</u>	<u>286</u>	<u>42,550</u>
Net Income.....	-	-	-	573	-	573
Comprehensive income:						
Amortization of costs included in periodic retirement benefit costs.....	-	-	-	-	(32)	-
Total comprehensive income.....	-	-	-	-	<u>(32)</u>	<u>(32)</u>
Capital stock/participation certificates issued.....	-	193	-	-	-	193
Capital stock/participation certificates retired.....	-	(139)	-	-	-	(139)
Patronage distribution:						
Cash.....	-	-	-	(176)	-	(176)
Allocated.....	-	-	243	(243)	-	-
Distribution adjustment.....	-	-	(1,227)	1,220	-	(7)
Balance at March 31, 2008.....	<u>\$ 2,754</u>	<u>\$ 2,255</u>	<u>\$ 10,699</u>	<u>\$ 27,000</u>	<u>\$ 254</u>	<u>\$ 42,962</u>
Balance at December 31, 2008.....	\$ 2,754	\$ 2,313	\$ 13,897	\$ 26,963	\$ 155	\$ 46,082
Net Income.....	-	-	-	1,153	-	1,153
Comprehensive income:						
Amortization of costs included in periodic retirement benefit costs.....	-	-	-	-	(5)	-
Actuarial gains (losses).....	-	-	-	-	(13)	-
Total comprehensive income.....	-	-	-	-	<u>(18)</u>	<u>(18)</u>
Capital stock/participation certificates issued.....	-	120	-	-	-	120
Capital stock/participation certificates retired.....	-	(119)	-	-	-	(119)
Patronage distribution:						
Cash.....	-	-	-	(87)	-	(87)
Allocated.....	-	-	456	(456)	-	-
Distribution adjustment.....	-	-	-	718	-	718
<b>Balance at March 31, 2009.....</b>	<b><u>\$ 2,754</u></b>	<b><u>\$ 2,314</u></b>	<b><u>\$ 14,353</u></b>	<b><u>\$ 28,291</u></b>	<b><u>\$ 137</u></b>	<b><u>\$ 47,849</u></b>

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

**AGRILAND, FARM CREDIT SERVICES**  
**NOTES TO QUARTERLY FINANCIAL STATEMENT**  
*(Unaudited)*  
*(Dollars in thousands except as noted)*

**NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

The Agriland, Farm Credit Services (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Anderson, Angelina, Bowie, Camp, Cass, Chambers, Cherokee, Collin, Cook, Dallas, Delta, Denton, Fannin, Franklin, Freestone, Grayson, Gregg, Hardin, Harrison, Henderson, Hopkins, Houston, Hunt, Jasper, Jefferson, Kaufman, Lamar, Leon, Liberty, Limestone, Marion, Montgomery, Morris, Nacogdoches, Newton, Orange, Panola, Polk, Rains, Red River, Rockwall, Rusk, Sabine, San Augustine, San Jacinto, Shelby, Smith, Titus, Trinity, Tyler, Upshur, Van Zandt, Walker and Wood in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

Effective January 1, 2009, the Association adopted FSP No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures but did not have an impact on our financial condition or results of operations.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter and the three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2008. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

**NOTE 2: ALLOWANCE FOR LOAN LOSSES**

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated 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 and prior loan loss experience. An analysis of the allowance for loan losses follows:

	March 31	
	2009	2008
Balance beginning of quarter	\$ 2,425	\$ 1,255
Provisions for loan losses	49	944
Charge-Offs	(415)	(58)
Recoveries	8	0
Balance at end of quarter	\$ 2,067	\$ 2,141

The following table presents information concerning impaired loans.

	March 31	
	2009	2008
Impaired loans with related allowance	\$ 4,119	\$ 6,131
Impaired loans with no related allowance	12,972	3,104
Total impaired loans	\$ 17,091	\$ 9,235
Allowance on impaired loans	\$ 1,399	\$ 1,952
Average impaired loans	\$ 13,819	\$ 7,681
Interest income recognized on impaired loans	\$ 79	\$ 13

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

**NOTE 3: CAPITAL**

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

**NOTE 4: INCOME TAXES**

AgriLand, Farm Credit Services, the parent company, and the wholly owned PCA subsidiary, AgriLand, PCA, are subject to federal income tax. The long-term mortgage lending activity conducted by AgriLand, FLCA, the wholly owned FLCA subsidiary, is exempt from federal income tax.

The Association's adoption of FIN 48 on January 1, 2007 has not created a liability for unrecognized tax benefits.

**NOTE 5: EMPLOYEE BENEFIT PLANS**

The following table summarizes the components of the net periodic benefit costs as of March 31:

	March 31	March 31
	2009	2008
Service cost	\$ 5	\$ 5
Interest cost	25	25
Amortization of:		
Unrecognized prior service costs	(32)	(32)
Unrecognized net (gain) loss	14	0
Net periodic benefit cost	\$ 12	\$ (2)

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), 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 SFAS 158 were adopted at December 31, 2007. SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, we used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. We have applied the second approach, which allows for the use of the measurements determined for the prior year end.

As discussed in the 2008 Annual Report, the District discontinued the multi-employer approach to provide health and welfare benefits and the Association adopted a new plan to provide the same benefits to its retirees, employees and directors. Under the new plan, the Association recorded an unfunded accumulated benefit obligation for its retirees and employees. The balance of this liability as of March 31, 2009 was \$1,629.

**NOTE 6: FINANCIAL INSTRUMENTS OF OFF-BALANCE-SHEET RISK**

The Association is a party to financial instruments with off-balance-sheet risk originating in the normal course of business to meet the financing needs of its customers. The Association's financial instruments with off-balance-sheet risk are in the form of commitments to extend credit to borrowers.

The Association's exposure to credit loss in the event of nonperformance by the borrowers for commitments to extend credit is represented by the contractual amount of these commitments. The Association uses the same credit policies in making these commitments as it does for loans that are represented on the balance sheet.

Financial instruments that contract amounts represent credit risk:  
Commitments to extend credit: \$34,356

## OFFICE LOCATIONS

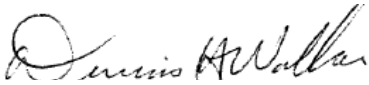
<b>ADMINISTRATIVE OFFICE</b> (903) 593-6609	3210 W.N.W. Loop 323 Tyler, Texas 75712
<b>TYLER BRANCH OFFICE</b> (903) 593-0151	6760 Old Jacksonville Hwy, Suite 105 Tyler, Texas 75703
<b>ATHENS BRANCH OFFICE</b> (903) 675-9388	520 East Tyler Athens, Texas 75751
<b>NACOGDOCHES BRANCH OFFICE</b> (936) 564-0448	2200 NW Stallings Drive Nacogdoches, Texas 75963
<b>SULPHUR SPRINGS BRANCH OFFICE</b> (903) 885-7608	1305 Shannon Road Sulphur Springs, Texas 75482
<b>BEAUMONT BRANCH OFFICE</b> (409) 861-1900	1630 North Major Dr., Suite A Beaumont, Texas 77713
<b>FAIRFIELD BRANCH OFFICE</b> (254) 389-8738	314 Hwy 84 Fairfield, Texas 75840
<b>PARIS BRANCH OFFICE</b> (903) 784-4383	3743 Lamar Avenue Paris, Texas 75460
<b>BONHAM BRANCH OFFICE</b> (903) 583-3217	112 E. Hwy 82 Bonham, Texas 75418
<b>GAINESVILLE BRANCH OFFICE</b> (940) 665-0715	206 S. Dixon Gainesville, Texas 76240
<b>CLARKSVILLE BRANCH OFFICE</b> (903) 427-5675	401 N. Locust Clarksville, Texas 75426
<b>KINGWOOD BRANCH OFFICE</b> (281) 354-0027	25408 US Hwy, Suite 100 Porter, Texas 77365

**CERTIFICATION OF MANAGEMENT**

The financial statements of the AgriLand, Farm Credit Services are prepared by management, which 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 and appropriate in the circumstances, except as noted. Other financial information included in the quarterly report is consistent with that in the financial statements.

To meet its responsibility for reliable information, management depends on the AgriLand, FCS accounting and internal control systems that have been designed to provide reasonable, but not absolute assurance what assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, the Association is examined by the Farm Credit Administration and by an independent outside auditor.

We hereby certify that, to the best of our knowledge, this report to stockholders has been prepared in accordance with all applicable and lawful regulations and instructions and is a true and accurate representation of AgriLand, FCS's financial condition for the quarter ending March 31, 2009.



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Dennis Walker,  
Chairman, Board of Directors

April 24, 2009

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Date



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Roger Brist,  
Chief Executive Officer

April 24, 2009

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Date