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*Central Kentucky Agricultural Credit Association*

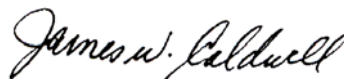
# SECOND QUARTER 2009

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## CERTIFICATION

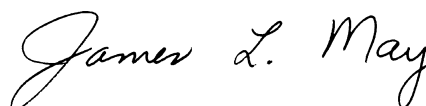
The undersigned certify that we have reviewed the June 30, 2009 quarterly report of Central Kentucky Agricultural Credit Association, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



James Caldwell  
Chief Executive Officer



Marcus G. Barnett  
Chief Financial Officer



James L. May  
Chairman of the Board

July 23, 2009

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*Central Kentucky Agricultural Credit Association*

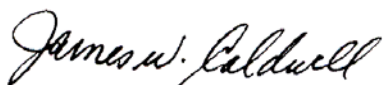
# Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

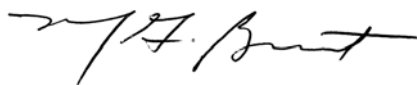
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2009. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of June 30, 2009, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2009



James W. Caldwell  
Chief Executive Officer



Marcus G. Barnett  
Chief Financial Officer

July 23, 2009

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

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of Central Kentucky Agricultural Credit Association (the Association) for the period ended June 30, 2009. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2008 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region. The predominate enterprises are beef and thoroughbred horses. Overall, the outlook for the beef cattle industry is guarded with concern over the impact of the economic downturn on consumer demand. The thoroughbred horse industry is also guarded due to negative effects from the downturn in the general economy. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm employment in the area, significantly reduces the level of dependency on a given commodity.

The gross loan volume of the Association as of June 30, 2009 was \$243,044, an increase of \$17,445 as compared to \$225,599 at December 31, 2008. Net loans outstanding at June 30, 2009 were \$240,973 as compared to \$224,130 at December 31, 2008. Net loans accounted for 84.58 percent of total assets at June 30, 2009, as compared to 81.52 percent of total assets at December 31, 2008.

The increase in gross and net loan volume during the reporting period is primarily due to growth in real estate loans due to a reduction in agricultural lending activity among other lenders in the region.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from \$1,491 at December 31, 2008, to \$4,213 at June 30, 2009. This increase is primarily due to the transfer of two larger accounts to nonaccrual status. Association management maintains an

allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The \$2,071 allowance for loan losses at June 30, 2009 reflected a \$602 increase from December 31, 2008, and was considered by management to be adequate to cover possible losses.

## RESULTS OF OPERATIONS

### *For the three months ended June 30, 2009*

Net income for the three months ended June 30, 2009 totaled \$191, as compared to \$735 for the same period in 2008. Net interest income increased \$184 for the three months ended June 30, 2009 as compared to the same period in 2008. The Association recorded a provision for loan losses of \$600 for the three months ended June 30, 2009, as compared to no provision for loan losses for the same period in 2008.

At June 30, 2009, interest income on accruing loans increased \$27 compared to June 30, 2008. The Association recorded nonaccrual income of \$5 for the three months ended June 30, 2009, as compared to \$1 for the same period in 2008. Interest income from tobacco successor-in-interest contract (SIIC) investments was \$380 for the three months ended June 30, 2009, as compared to \$434 for the same period in 2008. Interest expense decreased \$211 for the three months ended June 30, 2009 as compared to the comparable period of 2008. Movement in interest income and expense is primarily attributed to increases in loan volume and an early-year reduction in the Association's direct note from receipt of patronage from the AgFirst Farm Credit Bank (Bank). Noninterest income for the three months ended June 30, 2009 totaled \$612, as compared to \$574 for the same period of 2008, an increase of \$38. Increase within this category is primarily attributed to increased income from equity in earnings of the Bank

Noninterest expense for the three months ended June 30, 2009 increased \$166 compared to the same period of 2008. The increase is due primarily to an increase in retirement plan expense. The Association recorded no provision for income taxes for the three months ended June 30, 2009, and recorded no provision for income taxes for the same period in 2008.

### *For the six months ended June 30, 2009*

Net income for the six months ended June 30, 2009 totaled \$874, as compared to \$1,440 for the same period in 2008. Net interest income increased \$316 for the six months ended June 30, 2009 as compared to the same period in 2008. The

Association recorded a provision for loan losses of \$600 for the six months ended June 30, 2009, as compared to no provision for loan losses for the same period in 2008.

At June 30, 2009, interest income on accruing loans increased \$54 compared to June 30, 2008. The Association recorded nonaccrual income of \$5 for the six months ended June 30, 2009, as compared to \$1 for the same period in 2008. Interest income from tobacco successor-in-interest contract (SIIC) investments were \$751 for the six months ended June 30, 2009, as compared to \$867 for the same period in 2008. Interest expense decreased \$378 for the six months ended June 30, 2009 as compared to the comparable period of 2008. Movement in interest income and expense is primarily attributed to increases in loan volume and an early-year reduction in the Association's direct note from receipt of Bank patronage. Noninterest income for the six months ended June 30, 2009 totaled \$1,178, as compared to \$1,164 for the same period of 2008, an increase of \$14. Increase within this category is primarily attributed to increased income from equity in earnings of the Bank.

Noninterest expense for the six months ended June 30, 2009 increased \$296 compared to the same period of 2008. The increase is due primarily to an increase in retirement plan expense. The Association recorded no provision for income taxes for the six months ended June 30, 2009, and recorded no provision for income taxes for the same period in 2008.

The financial results of this interim report are not necessarily indicative of the results expected for the year.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2009 was \$246,259 as compared to \$236,494 at December 31, 2008. The increase during the period is primarily attributed to increases in loan volume.

## CAPITAL RESOURCES

Total members' equity at June 30, 2009 increased to \$35,516 from the December 31, 2008 total of \$34,501. The increase is primarily attributed to the Association's increase in retained earnings as a result of income recorded for the six months ended June 30, 2009. Total capital stock and participation certificates were \$6,579 on June 30, 2009,

compared to \$6,453 on December 31, 2008. This increase is attributed to member purchases of equities in relation to increases in loan volume.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2009, the Association's permanent capital ratio was 12.04 percent and the total surplus ratio and core surplus ratio were 10.93 percent and 10.28 percent, respectively. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, "*Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*", in the Notes to the Financial Statements, and the 2008 Annual Report to Shareholders for recently issued accounting pronouncements.

**NOTE:** Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or by writing Stephen Gilbert, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-859-253-3249, or writing Marcus Barnett, Chief Financial Officer, Central Kentucky Agricultural Credit Association, P.O. Box 1290, Lexington, KY 40588-1290, or accessing the website [www.ckaca.com](http://www.ckaca.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution

# Central Kentucky Agricultural Credit Association Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>June 30, 2009</b> <i>(unaudited)</i>	<b>December 31, 2008</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 249	\$ 699
Loans	243,044	225,599
Less: allowance for loan losses	2,071	1,469
Net loans	240,973	224,130
Loans held for sale		
Other investments	27,942	32,291
Accrued interest receivable	2,729	3,539
Investment in other Farm Credit institutions	7,559	7,559
Premises and equipment, net	3,579	3,628
Other property owned	73	168
Due from AgFirst Farm Credit Bank	961	1,810
Other assets	840	1,123
Total assets	\$ 284,905	\$ 274,947
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 246,259	\$ 236,494
Accrued interest payable	803	917
Patronage refund payable	55	715
Other liabilities	2,272	2,320
Total liabilities	249,389	240,446
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	6,579	6,453
Retained earnings		
Allocated	11,929	11,975
Unallocated	17,008	16,073
Total members' equity	35,516	34,501
Total liabilities and members' equity	\$ 284,905	\$ 274,947

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

# Central Kentucky Agricultural Credit Association

## Consolidated Statements of Income

*(unaudited)*

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
<b>Interest Income</b>				
Loans	\$ 3,475	\$ 3,448	\$ 6,877	\$ 6,823
Other	380	434	751	867
Total interest income	3,855	3,882	7,628	7,690
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	2,442	2,653	4,886	5,264
Net interest income	1,413	1,229	2,742	2,426
Provision for (reversal of allowance for) loan losses	600	—	600	—
Net interest income after provision for (reversal of allowance for) loan losses	813	1,229	2,142	2,426
<b>Noninterest Income</b>				
Loan fees	111	132	179	303
Equity in earnings of other Farm Credit institutions	492	438	961	843
Gains (losses) on other property owned, net	—	—	—	—
Gains (losses) on sale of rural home loans, net	8	4	16	(4)
Other noninterest income	1	—	22	22
Total noninterest income	612	574	1,178	1,164
<b>Noninterest Expense</b>				
Salaries and employee benefits	838	715	1,671	1,435
Occupancy and equipment	93	83	188	171
Insurance Fund premium	97	72	183	138
Other operating expenses	206	198	404	406
Total noninterest expense	1,234	1,068	2,446	2,150
Income before income taxes	191	735	874	1,440
Provision (benefit) for income taxes	—	—	—	—
Net income	\$ 191	\$ 735	\$ 874	\$ 1,440

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

Central Kentucky Agricultural Credit Association  
**Consolidated Statements of Changes in  
 Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2007	\$ 6,699	\$ 10,879	\$ 15,950	\$ 33,528
Net income			1,440	1,440
Capital stock/participation certificates issued/(retired), net	148			148
Retained earnings retired		(1)		(1)
Patronage distribution adjustment		(17)	23	6
Balance at June 30, 2008	\$ 6,847	\$ 10,861	\$ 17,413	\$ 35,121
Balance at December 31, 2008	\$ 6,453	\$ 11,975	\$ 16,073	\$ 34,501
Comprehensive income				
Net income			874	874
Capital stock/participation certificates issued/(retired), net	126			126
Retained earnings retired		(1)		(1)
Patronage distribution adjustment		(45)	61	16
Balance at June 30, 2009	\$ 6,579	\$ 11,929	\$ 17,008	\$ 35,516

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

# Central Kentucky Agricultural Credit Association

## Notes to the Consolidated Financial Statements

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

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

The accompanying financial statements include the accounts of Central Kentucky Agricultural Credit Association (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2008, are contained in the 2008 Annual Report to Shareholders. These unaudited second quarter 2009 consolidated financial statements should be read in conjunction with the 2008 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the six months ended June 30, 2009, are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2009, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In addition to the recently issued accounting pronouncements discussed in the 2008 Annual Report to Shareholders, effective January 1, 2009, the Association adopted Financial Accounting Standards Board (FASB) Statement of Position (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 until fiscal years beginning after November 15, 2008. The impact of adoption requires additional fair value disclosures (see Note 4), primarily regarding other property owned, but does not have an impact on the Association's financial condition or results of operations.

In April 2009, the FASB issued FSP No. 107-1 and Accounting Principles Board (APB) No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This FSP requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The FSP is effective for interim periods ending after June 15, 2009 (see Note 5).

In May 2009, the FASB issued SFAS No. 165, "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 Standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009 (see Note 6).

### NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the six months ended June 30,	
	2009	2008
Balance at beginning of period	\$ 1,469	\$ 1,191
Provision for (reversal of) loan losses	600	–
Charge-offs	–	–
Recoveries	2	5
Balance at end of period	<u>\$ 2,071</u>	<u>\$ 1,196</u>

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

	2009	2008
Impaired loans with related allowance	\$ 1,982	\$ 299
Impaired loans with no related allowance	2,231	680
Total impaired loans	<u>\$ 4,213</u>	<u>\$ 979</u>
Allowance on impaired loans	<u>\$ 837</u>	<u>\$ 173</u>





