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*Central Kentucky Agricultural Credit Association*

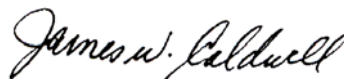
# FIRST QUARTER 2009

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## CERTIFICATION

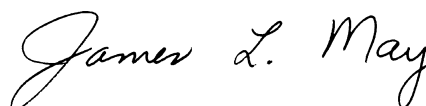
The undersigned certify that we have reviewed the March 31, 2009 quarterly report of Central Kentucky Agricultural Credit Association, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, 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

April 23, 2009

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*Central Kentucky Agricultural Credit Association*

# Report on Internal Control Over Financial Reporting

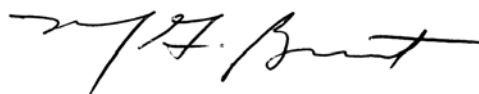
The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal 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, to provide 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 and 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 March 31, 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 March 31, 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 March 31, 2009.



James W. Caldwell  
Chief Executive Officer



Marcus G. Barnett  
Chief Financial Officer

April 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 March 31, 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 March 31, 2009 was \$230,976, an increase of \$5,377 as compared to \$225,599 at December 31, 2008. Net loans outstanding at March 31, 2009 were \$229,507 as compared to \$224,130 at December 31, 2008. Net loans accounted for 84.17 percent of total assets at March 31, 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 \$1,855 at March 31, 2009. This increase is primarily due to the transfer of several smaller 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 \$1,469 allowance for loan losses at March 31, 2009 reflected no change from December 31, 2008, and was considered by management to be adequate to cover possible losses.

## RESULTS OF OPERATIONS

### **For the three months ended March 31, 2009**

Net income for the three months ended March 31, 2009 totaled \$683, as compared to \$705 for the same period in 2008. Net interest income increased \$132 for the three months ended March 31, 2009 as compared to the same period in 2008. The Association recorded no provision for loan losses for the three months ended March 31, 2009, as compared to no provision for loan losses for the same period in 2008.

At March 31, 2009, interest income on accruing loans increased \$27 compared to March 31, 2008. The Association recorded nonaccrual income of \$0 for the three months ended March 31, 2009, as compared to \$0 for the same period in 2008. Interest income from tobacco successor-in-interest contract (SIIC) investments was \$371 for the three months ended March 31, 2009, as compared to \$433 for the same period in 2008. Interest expense decreased \$167 for the three months ended March 31, 2009 as compared to the comparable period of 2008. Movement in interest income and expense is primarily attributed to increases in loan volume and a reduction in the Association's direct note. Noninterest income for the three months ended March 31, 2009 totaled \$566, as compared to \$590 for the same period of 2008, a decrease of \$24. Decline within this category is primarily attributed to decreased loan fee income on participation loans purchased.

Noninterest expense for the three months ended March 31, 2009 increased \$130 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 March 31, 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 March 31, 2009 was \$234,318 as compared to \$236,494 at December 31, 2008. The decrease

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during the period is primarily attributed to a decrease in tobacco successor-in-interest contract (SIIC) investments.

### **CAPITAL RESOURCES**

Total members' equity at March 31, 2009 increased to \$35,197 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 three months ended March 31, 2009. Total capital stock and participation certificates were \$6,451 on March 31, 2009, compared to \$6,453 on December 31, 2008. This decrease is attributed to member sales of equities.

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 March 31, 2009, the Association's permanent capital ratio was 12.46 percent and the total surplus ratio and core surplus ratio were 11.33 percent and 10.65 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.

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**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>March 31, 2009</b> <i>(unaudited)</i>	<b>December 31, 2008</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 328	\$ 699
Loans	230,976	225,599
Less: allowance for loan losses	1,469	1,469
Net loans	229,507	224,130
Other investments	27,221	32,291
Accrued interest receivable	2,828	3,539
Investment in other Farm Credit institutions	7,559	7,559
Premises and equipment, net	3,604	3,628
Other property owned	168	168
Due from AgFirst Farm Credit Bank	469	1,810
Other assets	1,002	1,123
Total assets	\$ 272,686	\$ 274,947
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 234,318	\$ 236,494
Accrued interest payable	825	917
Patronage refund payable	78	715
Other liabilities	2,268	2,320
Total liabilities	237,489	240,446
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	6,451	6,453
Retained earnings		
Allocated	11,929	11,975
Unallocated	16,817	16,073
Total members' equity	35,197	34,501
Total liabilities and members' equity	\$ 272,686	\$ 274,947

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

# Central Kentucky Agricultural Credit Association

## Consolidated Statements of Income

*(unaudited)*

For the three months  
ended March 31,

*(dollars in thousands)*

	2009	2008
<b>Interest Income</b>		
Loans	\$ 3,402	\$ 3,375
Other	371	433
Total interest income	3,773	3,808
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	2,444	2,611
Net interest income	1,329	1,197
Provision for (reversal of allowance for) loan losses	—	—
Net interest income after provision for (reversal of allowance for) loan losses	1,329	1,197
<b>Noninterest Income</b>		
Loan fees	68	171
Equity in earnings of other Farm Credit institutions	469	405
Gains (losses) on sale of rural home loans, net	8	(8)
Other noninterest income	21	22
Total noninterest income	566	590
<b>Noninterest Expense</b>		
Salaries and employee benefits	833	720
Occupancy and equipment	95	88
Insurance Fund premium	86	66
Other operating expenses	198	208
Total noninterest expense	1,212	1,082
Income before income taxes	683	705
Provision (benefit) for income taxes	—	—
Net income	\$ 683	\$ 705

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

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

*(unaudited)*

*(dollars in thousands)*

	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			705	705
Capital stock/participation certificates issued/(retired), net	49			49
Patronage distribution adjustment		(17)	24	7
Balance at March 31, 2008	\$ 6,748	\$ 10,862	\$ 16,679	\$ 34,289
Balance at December 31, 2008	\$ 6,453	\$ 11,975	\$ 16,073	\$ 34,501
Net income			683	683
Capital stock/participation certificates issued/(retired), net	(2)			(2)
Patronage distribution adjustment		(46)	61	15
Balance at March 31, 2009	\$ 6,451	\$ 11,929	\$ 16,817	\$ 35,197

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





