

**FARM CREDIT OF  
SOUTHWEST KANSAS, ACA**

**QUARTERLY REPORT TO STOCKHOLDERS**



**AS OF MARCH 31, 2009**

**Farm Credit of Southwest Kansas, ACA**

***DISCLOSURE OF IMPACT OF BANK OPERATIONS ON SHAREHOLDERS' INVESTMENT IN THE ASSOCIATION***

The shareholders' investment in Farm Credit of Southwest Kansas, ACA is materially affected by the financial condition and results of operations of U.S. AgBank, (AgBank). The 2008 AgBank Annual Report to Shareholders, the 2008 AgBank District Annual Report to Shareholders, the AgBank quarterly shareholders' reports and the AgBank District quarterly shareholders' reports are available on AgBank's web site, [www.usagbank.com](http://www.usagbank.com), or may be obtained at no charge by visiting or calling the Association at:

**FARM CREDIT OF SOUTHWEST KANSAS, ACA  
1606 E. KANSAS AVE.  
GARDEN CITY, KS 67846  
Ph. (620) 275-4281**

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in Thousands, Except as Noted)  
(Unaudited)

The following commentary summarizes the principal aspects of the financial position and results of operations of Farm Credit of Southwest Kansas, ACA for the quarter ended March 31, 2009, with comparisons to the prior year and prior quarter. You should read these comments with the accompanying financial statements and footnotes, along with other disclosures contained in this report and the 2008 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

### LOAN PORTFOLIO

Loans outstanding at March 31, 2009 totaled \$486,236, a decrease of \$6,238, or 1.27%, from loans of \$492,474 at December 31, 2008. The decrease was primarily due to a reduction in production and intermediate-term loans.

### RESULTS OF OPERATIONS

Net interest income for the three months ended March 31, 2009 was \$2,744, a decrease of \$317, or 10.36%, from the same period ended one year ago. Net interest income decreased largely as a result of a decrease in the amount of interest earned on our own funds caused by an overall decrease in interest rates.

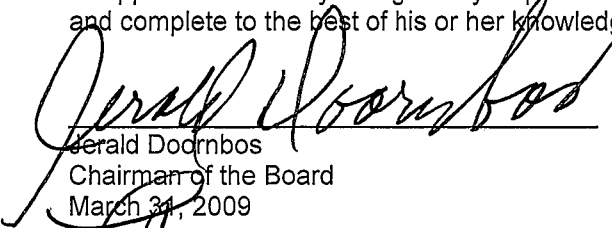
Net income for the three months ended March 31, 2009 was \$565, a decrease of \$2,684, or 82.61%, from the same period ended one year ago. This is primarily due to a provision for loan loss of \$1,212 for the first three months of 2009 as compared to a \$792 reversal in the provision for loan loss during the first three months of 2008.

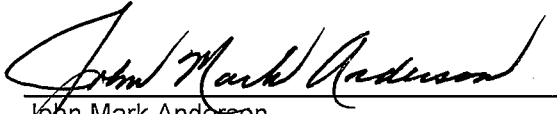
We have been notified by AgBank that they have changed their patronage program whereby patronage will be paid annually, after the end of the year, to its members. Previously, AgBank paid patronage quarterly. As a result, our quarterly earnings compared to the previous period will be negatively impacted during 2009.

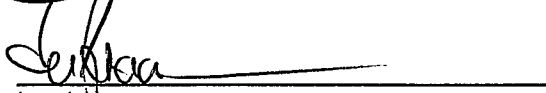
### CAPITAL RESOURCES

Our shareholders' equity at March 31, 2009 was \$119,258, an increase from \$118,707 at December 31, 2008. This increase is due to net income offset by the change in retirement obligation and stock reductions.

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

  
Gerald Dodrnbos  
Chairman of the Board  
March 31, 2009

  
John Mark Anderson  
President  
March 31, 2009

  
Les Isaac  
Sr. Vice President/Finance & Operations  
March 31, 2009

**FARM CREDIT OF SOUTHWEST KANSAS, ACA**  
**CONSOLIDATED STATEMENT OF CONDITION**  
(Dollars in Thousands)

	<b>March 31</b>	December 31
	<b>2009</b>	2008
	UNAUDITED	AUDITED
<b>ASSETS</b>		
Loans	\$ 486,236	\$ 492,474
Less allowance for loan losses	3,188	1,976
Net loans	483,048	490,498
Cash	4,015	4,501
Accrued interest receivable	6,036	6,858
Investment in U.S. AgBank, FCB	17,705	17,705
Premises and equipment, net	1,716	1,754
Other property owned	2,749	2,750
Prepaid benefit expense	730	799
Deferred tax asset	26	26
Other assets	319	2,039
<b>Total assets</b>	<b>\$ 516,344</b>	<b>\$ 526,930</b>
<b>LIABILITIES</b>		
Note payable to U.S. AgBank, FCB	\$ 379,954	\$ 384,912
Advance conditional payments	11,877	9,187
Accrued interest payable	3,861	7,109
Patronage distributions payable	-	4,500
Accrued benefits liability	210	210
Other liabilities	1,184	2,305
<b>Total liabilities</b>	<b>397,086</b>	<b>408,223</b>
<b>Commitments and contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Protected borrower stock	73	74
Capital stock	1,071	1,083
Unallocated retained earnings	118,090	117,525
Other comprehensive income	24	25
<b>Total shareholders' equity</b>	<b>119,258</b>	<b>118,707</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 516,344</b>	<b>\$ 526,930</b>

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

**FARM CREDIT OF SOUTHWEST KANSAS, ACA**  
**CONSOLIDATED STATEMENT OF INCOME**  
(Dollars in Thousands)

UNAUDITED	For the three months ended March 31	
	2009	2008
<b>INTEREST INCOME</b>		
Loans	\$ 6,153	\$ 6,623
<b>Total interest income</b>	<b>6,153</b>	<b>6,623</b>
<b>INTEREST EXPENSE</b>		
Note payable to U.S. AgBank, FCB	3,389	3,460
Other	20	102
<b>Total interest expense</b>	<b>3,409</b>	<b>3,562</b>
Net interest income	2,744	3,061
Provision/(Loan loss reversal) for loan losses	1,212	(792)
Net interest income after provision for loan losses	1,532	3,853
<b>NONINTEREST INCOME</b>		
Financially related services income	325	175
Loan fees	78	34
Patronage distribution from U.S. AgBank, FCB	277	634
Other noninterest income	209	16
<b>Total noninterest income</b>	<b>889</b>	<b>859</b>
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	1,011	796
Occupancy and equipment	95	82
Purchased services from AgVantis, Inc.	128	115
Loss/(Gain) on other property owned, net	24	(52)
Farm Credit Insurance Fund premium	221	147
Supervisory and examination costs	40	41
Other noninterest expense	334	322
<b>Total noninterest expense</b>	<b>1,853</b>	<b>1,451</b>
Income before income taxes	568	3,261
Provision for income taxes	3	12
<b>Net income</b>	<b>\$ 565</b>	<b>\$ 3,249</b>

FARM CREDIT OF SOUTHWEST KANSAS, ACA  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
(Dollars in Thousands)

UNAUDITED

	Protected Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
<b>Balance at December 31, 2007</b>	\$ 89	\$ 1,085	\$ 112,627	\$ 72	\$ 113,873
Comprehensive income					
Net income			3,249		
Amortization of costs included in net periodic benefit cost				(4)	
Total comprehensive income					3,245
Effect of changing defined benefit plan measurement date			5		5
Stock issued	-	68			68
Stock retired	(2)	(69)			(71)
<b>Balance at March 31, 2008</b>	<b>\$ 87</b>	<b>\$ 1,084</b>	<b>\$ 115,881</b>	<b>\$ 68</b>	<b>\$ 117,120</b>
<b>Balance at December 31, 2008</b>	<b>\$ 74</b>	<b>\$ 1,083</b>	<b>\$ 117,525</b>	<b>\$ 25</b>	<b>\$ 118,707</b>
Comprehensive income					
Net income			565		
Change in retirement obligation				(1)	
Total comprehensive income					564
Stock issued	-	23			23
Stock retired	(1)	(35)			(36)
<b>Balance at March 31, 2009</b>	<b>\$ 73</b>	<b>\$ 1,071</b>	<b>\$ 118,090</b>	<b>\$ 24</b>	<b>\$ 119,258</b>

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

## NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)  
(Unaudited)

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of Southwest Kansas, ACA (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 first quarter 2009 financial statements should be read in conjunction with the 2008 Annual Report to Shareholders.

The accompanying 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 and prevailing practices within the banking industry. The results for the three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009.

### NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the allowance for loan losses follows.

	March 31, 2009	March 31, 2008
Balance at beginning of year	\$ 1,976	\$ 2,457
Provision for loan losses/(Loan loss reversal)	1,212	(792)
Balance at end of period	\$ 3,188	\$ 1,665

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.

	March 31, 2009	March 31, 2008
Impaired loans with related allowance	\$ 2,871	\$ -0-
Impaired loans with no related allowance	238	186
Total impaired loans	\$ 3,109	\$ 186
Allowance on impaired loans	\$ 1,376	\$ -0-

The following table summarizes impaired loan information.

	For the three months ended March 31, 2009	March 31, 2008
Average impaired loans	\$ 3,335	\$ 98
Interest income recognized on impaired loans	\$ 3	\$ 17

### NOTE 3 – FAIR VALUE MEASUREMENTS

SFAS No. 157 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 to the 2008 Annual Report to Shareholders for a more complete description.

The Association had no liabilities measured at fair value on a recurring basis at March 31, 2009. Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
<b>Assets:</b>				
Assets held in nonqualified benefits trusts	\$ 230	\$ -0-	\$ -0-	\$ 230
Total assets	\$ 230	\$ -0-	\$ -0-	\$ 230

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

#### Valuation Techniques

As more fully discussed in Note 2 to the 2008 Annual Report to Shareholders, SFAS No. 157 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 presents a brief summary of the valuation techniques used for the Association's 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.

Farm Credit of Southwest Kansas, ACA

Part of the Farm Credit System