
Chattanooga Agricultural Credit Association

FIRST QUARTER 2009

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CERTIFICATION

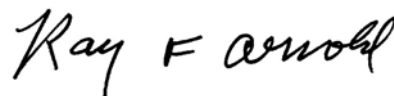
The undersigned certify that we have reviewed the March 31, 2009 quarterly report of Chattanooga Agricultural Credit Association, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Gary D. Keith
Chief Executive Officer



Sue J. Maiser
Chief Financial Officer



Ray F. Arnold
Chairman of the Board

April 24, 2009

Chattanooga 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.



Gary D. Keith
Chief Executive Officer



Sue J. Maiser
Chief Financial Officer

April 24, 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 Chattanooga 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 including poultry, dairy, livestock and produce. 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 income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of March 31, 2009, was \$148,051, an increase of \$1,988 as compared to \$146,063 at December 31, 2008. Net loans outstanding at March 31, 2009, were \$146,701, an increase of \$1,882 as compared to \$144,819 at December 31, 2008. Net loans accounted for 91.74 percent of total assets at March 31, 2009, as compared to 91.08 percent of total assets at December 31, 2008. The increase in gross and net loan volume during the reporting period is partly attributable to a decrease in loans sold.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans increased from \$2,124 at December 31, 2008, to \$3,864 at March 31, 2009. This increase is primarily the result of eight accounts transferred to nonaccrual status, offset by payments received in the normal course of business.

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 allowance for loan losses at March 31, 2009, was \$1,350 compared to \$1,244 at December 31, 2008,

and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2009

Net income for the three months ended March 31, 2009, totaled \$507, as compared to \$945 for the same period in 2008. Net interest income decreased by \$215 for the three months ended March 31, 2009, as compared to the same period in 2008. The change in net interest income is the result of lower interest rates on loan volume and lendable equity and the Association's participation in the Capitalized Pool Program (the "CPP Program"). Under the CPP Program district associations can offer to sell to the Bank an undivided participation interest in loans originated by the Association. The Association is required to purchase stock in the Bank equal to eight percent of the total amount of loans sold. Income from the sale of loans into the CPP Program is recognized as patronage from the bank and shown as equity in earnings of other Farm Credit institutions. Participation in the program enhances the Association's capital ratios. Provision for loan losses increased by \$268 for the three months ended March 31, 2009, as compared to the same period in 2008 primarily due to the current economic conditions being experienced.

Noninterest income for the three months ended March 31, 2009, totaled \$847, as compared to \$664 for the same period of 2008, an increase of \$183. The increase is primarily the result of increases in equity earnings from other Farm Credit institutions and loan fees partially offset by a decrease in other noninterest income and fees for financially related services.

Noninterest expense for the three months ended March 31, 2009, increased \$137 compared to the same period of 2008. The primary reasons for the increase in noninterest expense were increases in salaries and employee benefits, occupancy and equipment, and insurance fund premiums offset by a decrease in other operating expenses.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (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 Bank advances funds 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 fund 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 \$128,243 as compared to \$128,447 at December 31, 2008.

CAPITAL RESOURCES

Total members' equity at March 31, 2009, increased to \$25,155 from the December 31, 2008 total of \$24,657. The increase is attributed to an increase in member owned stock and the retention of earnings.

Total capital stock and participation certificates were \$3,037 on March 31, 2009, compared to \$3,032 on December 31, 2008. The increase is attributed to an increase in loan volume. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of two percent of the total loan amount or \$2.

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 total surplus ratio and core surplus ratio were 12.24 percent and 8.50 percent, respectively, and the permanent capital ratio was 14.28 percent. 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.

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 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. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 423-624-2169 ext. 18 or writing Sue J. Maiser, Chief Financial Officer, Chattanooga, ACA, P.O. Box 5220, Chattanooga, TN 37406, or accessing the website, www.chattanoogaagcredit.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.

Chattanooga Agricultural Credit Association

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2009 <i>(unaudited)</i>	December 31, 2008 <i>(audited)</i>
Assets		
Cash	\$ 1,392	\$ 338
Loans	148,051	146,063
Less: allowance for loan losses	1,350	1,244
Net loans	146,701	144,819
Loans held for sale		
Other investments	86	104
Accrued interest receivable	1,570	1,552
Investment in other Farm Credit institutions	8,357	8,582
Premises and equipment, net	838	849
Other property owned	120	—
Due from AgFirst Farm Credit Bank	730	2,589
Other assets	121	165
Total assets	<u>\$ 159,915</u>	<u>\$ 158,998</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 128,243	\$ 128,447
Subordinated debt payable to other Farm Credit institutions (Note 4)	2,500	2,500
Accrued interest payable	513	546
Patronage refund payable	109	801
Other liabilities	3,395	2,047
Total liabilities	<u>134,760</u>	<u>134,341</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	3,037	3,032
Retained earnings		
Allocated	10,362	10,215
Unallocated	11,756	11,410
Total members' equity	<u>25,155</u>	<u>24,657</u>
Total liabilities and members' equity	<u>\$ 159,915</u>	<u>\$ 158,998</u>

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

Chattanooga Agricultural Credit Association

Consolidated Statements of Income

(unaudited)

For the three months
ended March 31,

(dollars in thousands)

	2009	2008
Interest Income		
Loans	\$ 2,292	\$ 2,820
Other	1	2
Total interest income	2,293	2,822
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	1,468	1,836
Subordinated debt payable to other Farm Credit institutions (Note 4)	56	—
Other	—	2
Total interest expense	1,524	1,838
Net interest income	769	984
Provision for (reversal of allowance for) loan losses	268	—
Net interest income after provision for (reversal of allowance for) loan losses	501	984
Noninterest Income		
Loan fees	98	92
Fees for financially related services	1	2
Equity in earnings of other Farm Credit institutions	730	549
Gains (losses) on sale of rural home loans, net	2	2
Other noninterest income	16	19
Total noninterest income	847	664
Noninterest Expense		
Salaries and employee benefits	578	446
Occupancy and equipment	43	37
Insurance Fund premium	57	51
Other operating expenses	162	169
Total noninterest expense	840	703
Income before income taxes	508	945
Provision (benefit) for income taxes	1	—
Net income	\$ 507	\$ 945

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

Chattanooga 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	\$ 2,973	\$ 9,440	\$ 10,796	\$ 23,209
Net income			945	945
Capital stock/participation certificates issued/(retired), net	53			53
Patronage distribution adjustment		(76)	98	22
Balance at March 31, 2008	<u>\$ 3,026</u>	<u>\$ 9,364</u>	<u>\$ 11,839</u>	<u>\$ 24,229</u>
Balance at December 31, 2008	\$ 3,032	\$ 10,215	\$ 11,410	\$ 24,657
Net income			507	507
Capital stock/participation certificates issued/(retired), net	5			5
Patronage distribution adjustment		147	(161)	(14)
Balance at March 31, 2009	<u>\$ 3,037</u>	<u>\$ 10,362</u>	<u>\$ 11,756</u>	<u>\$ 25,155</u>

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

