

Farm Credit

OF MAINE

**QUARTERLY REPORT TO
STOCKHOLDERS**

September 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Net interest income is the primary component of earnings for the Association and represents the difference between interest income and interest expense. While both interest income and interest expense decreased during the first nine months in comparison to prior year due to the lower overall interest rate environment, net interest income increased by 30.9 percent for the nine months ending September 30, 2009. Net interest income was \$7,248,964 compared to \$5,537,335 for the same period in 2008. The increase is due to higher net interest margins that reflect greater risk and uncertainty in local credit markets and global financial markets. Net interest income has also been enhanced by interest rate swap transactions that are utilized to stabilize and enhance interest income over the long term. Positive results from these swaps are recorded as a decrease in interest expense.

Noninterest income is comprised primarily of CoBank patronage and fees from loan, appraisal, and insurance services. Noninterest income of \$2,151,742 for the nine months ending September 30, 2009 is above the \$1,918,386 for the same period in 2008. The increase is attributable primarily to higher patronage income expected from CoBank and higher financial services income.

Noninterest expense incurred during the first nine months totaled \$4,524,406 compared to \$4,361,062 for the same period in 2008. This is an increase of 3.7 percent. Almost all operating expenses are higher than prior year.

Net income for the nine months ending September 30, 2009 is \$3,405,782, compared to \$2,750,065 for the same period in 2008. This represents a 23.8 percent increase, and these earnings are above the Association's 2009 financial plan.

FINANCIAL CONDITION AND CAPITAL RESOURCES

Total assets of \$262,524,362 at September 30, 2009 compare to \$261,917,057 at previous year-end. The Association continues to see good lending activity and modest growth in loan volume. Part of the company's capital and risk management process includes significant loan participation activity with CoBank. Sharing on-going loan balances with CoBank enables the Association to continue to provide customers with funding for their credit needs, while at the same time maintaining our own capital ratios at desired levels. Loans sold at September 30, 2009 totaled \$153,541,082, an increase of \$21,304,678 from previous year-end. Total liabilities with CoBank have increased correspondingly to \$213,019,648 to fund the change in loan volume net of loans sold.

Capital stock changes are the result of changes in total loan volume. Several years ago, the Board approved an aggressive plan to further reduce borrower stock to the minimum amounts permitted by regulation. This minimum amount is 2 percent of the loan commitment or \$1,000, whichever is less, on all loans with the same customer number. Total stock outstanding at September 30, 2009 is \$732,920 compared to \$715,260 at previous year-end.

Allocated and unallocated surplus totals \$5,189,265 and \$41,582,867 respectively at September 30, 2009. During the first nine months, unallocated surplus increased by net income from operations of \$3,405,782, offset by anticipated patronage refunds payable to our members.

The Board of Directors declared a patronage dividend from 2008 earnings in the amount of \$1,600,000. This patronage was distributed 50 percent in cash and 50 percent to allocated surplus. The \$800,000 cash portion was distributed to eligible members on March 24, 2009. In July, the Board also declared a distribution of allocated surplus from 2002 earnings in the amount of \$650,000. This was distributed on September 4, 2009.

Changes in market value of the Association's interest rate swap transactions during the period are accounted for as gains or losses in accumulated other comprehensive income. The market value is an indication of what the transactions are worth if they were terminated at a point in time. The change in market value at September 30, 2009 from December 31, 2008 is a decrease of \$295,941. The change in market value does not correspond directly to the overall profitability of the aggregate transactions.

The net effect of these combined activities results in total members' equity at September 30, 2009 of \$47,488,985. This is an increase of \$1,871,683 over December 31, 2008. The Association's permanent capital ratio was 15.4 percent at September 30, 2009 up from 14.9 percent from previous year-end.

LIQUIDITY AND FUNDING SOURCES

The primary source of liquidity and funding for the Association is a revolving line of credit with CoBank. This note payable totaled \$213,019,648 at September 30, 2009 down from \$213,867,977 at December 31, 2008. This decrease corresponds with the Association's change in loan assets as discussed elsewhere in this report. The direct loan is repaid pursuant to, and is in compliance with, the terms and conditions of a General Financing Agreement with CoBank. CoBank continues to maintain adequate access to debt-funding markets as a member of the Farm Credit System and maintains adequate liquidity in excess of minimum regulatory requirements. The Association's General Financing Agreement with CoBank continues to provide sufficient liquidity to meet the expected borrowing needs of our customers and fund operations.

LOAN PORTFOLIO

Total loan volume for loans originated and purchased by the Association as of September 30, 2009 is \$397,980,206, an increase of \$23,018,658 or 6.1 percent when compared to December 31, 2008 and an increase of \$31,771,875 or 8.7 percent when compared to September 30, 2008. The Association continues to see good lending activity with both new and existing borrowers in all segments of the business. Loans participated with CoBank and other financial institutions total \$153,541,082.

The allowance for credit losses at September 30, 2009, is \$2,277,685 or .9 percent of net loan volume. The Association's analysis of historical loan loss history, in addition to other potential risk of loss inherent in the portfolio, is the basis for any adjustment to reserve levels. The provision of \$910,673 during the first nine months is the result of management's assessment of trends in loan volume and risk exposure within the portfolio.

The Association's overall acceptable credit quality on a net loan basis is 97.8 percent at September 30, 2009, which remains above the Association's minimum goal for the year of 90 percent. This compares to 98.7 percent at December 31, 2008. Many of the industries served by the Association are being impacted by current business and economic challenges, which is expected to contribute to a moderate decline in credit quality during the fourth quarter of 2009 and into 2010. High risk assets consist of impaired loan volume, loans 90 days or more delinquent and other property owned. These assets totaled \$2,045,480 or .8 percent of net loan volume at September 30, 2009 and compares to \$1,283,000 or .5 percent of net loan volume at previous year-end.

These financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

As always, comments and questions from stockholders are welcome.

Raymond J. Nowak
President and Chief Executive Officer

FARM CREDIT OF MAINE, ACA
CONSOLIDATED BALANCE SHEET
(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Gross loans	\$ 382,831,032	\$ 356,951,653
Plus participation loans purchased	15,149,144	18,009,895
Less participation loans sold	153,541,082	132,236,404
Sub-total	244,439,094	242,725,144
Less allowance for credit losses	2,277,685	1,371,142
Net loans	242,161,409	241,354,002
Cash	1,009,313	1,027,291
Accrued interest receivable	1,477,084	1,591,537
Investment in CoBank, ACB	11,747,570	11,430,638
Other property owned	13,542	13,542
Premises and equipment	2,860,312	2,897,943
Other assets	3,255,132	3,602,104
Total assets	\$ 262,524,362	\$ 261,917,057
 LIABILITIES		
Note payable to CoBank, ACB	\$ 213,019,648	\$ 213,867,977
Patronage distribution payable	600,000	800,000
Other liabilities	1,415,729	1,631,778
Total liabilities	215,035,377	216,299,755
 MEMBERS' EQUITY		
Capital stock and participation certificates	732,920	715,260
Allocated surplus	5,189,265	5,245,083
Unallocated surplus	41,582,867	39,377,085
Accumulated other comprehensive income	(16,067)	279,874
Total members' equity	47,488,985	45,617,302
Total liabilities and members' equity	\$ 262,524,362	\$ 261,917,057

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

FARM CREDIT OF MAINE, ACA
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
INTEREST INCOME				
Loans	\$ 3,046,200	\$ 3,173,966	\$ 8,954,218	\$ 9,928,914
Investment securities	7,274	13,460	34,327	37,696
Total interest income	<u>3,053,474</u>	<u>3,187,426</u>	<u>8,988,545</u>	<u>9,966,610</u>
INTEREST EXPENSE				
Notes payable to CoBank, ACB	<u>519,536</u>	<u>1,322,297</u>	<u>1,739,581</u>	<u>4,429,275</u>
Total interest expense	<u>519,536</u>	<u>1,322,297</u>	<u>1,739,581</u>	<u>4,429,275</u>
Net interest income	2,533,938	1,865,129	7,248,964	5,537,335
Provision for loan losses	<u>460,053</u>	<u>113,199</u>	<u>910,673</u>	<u>160,594</u>
Net interest income after provision for loan losses	<u>2,073,885</u>	<u>1,751,930</u>	<u>6,338,291</u>	<u>5,376,741</u>
NONINTEREST INCOME				
Patronage refund from CoBank, ACB	499,901	437,946	1,458,286	1,342,453
Loan fees	106,078	119,452	307,892	289,239
Fees for financial services	99,351	77,644	330,308	277,239
Miscellaneous	<u>12,077</u>	<u>3,795</u>	<u>55,256</u>	<u>9,455</u>
Total noninterest income	<u>717,407</u>	<u>638,837</u>	<u>2,151,742</u>	<u>1,918,386</u>
NONINTEREST EXPENSES				
Salaries and employee benefits	818,722	823,256	2,476,758	2,392,317
Occupancy and equipment	102,323	100,856	284,159	275,185
Insurance Fund premium	89,280	79,250	257,357	237,750
Operating expenses paid to Farm Credit Financial Partners, Inc.	228,336	221,394	685,039	664,201
Miscellaneous	<u>237,130</u>	<u>274,508</u>	<u>821,093</u>	<u>791,609</u>
Total noninterest expenses	<u>1,475,791</u>	<u>1,499,264</u>	<u>4,524,406</u>	<u>4,361,062</u>
Income before income taxes	1,315,501	891,503	3,965,627	2,934,065
Provision for income taxes	<u>162,845</u>	<u>26,000</u>	<u>559,845</u>	<u>184,000</u>
Net income	<u>\$ 1,152,656</u>	<u>\$ 865,503</u>	<u>\$ 3,405,782</u>	<u>\$ 2,750,065</u>

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

FARM CREDIT OF MAINE, ACA
CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
(Unaudited)

	Nine Months Ended September 30,	
	2009	2008
CAPITAL STOCK AND PARTICIPATION CERTIFICATES		
Balance at January 1	\$ 715,260	\$ 669,130
Issued	49,890	66,680
Retired	(32,230)	(36,525)
Balance at September 30	\$ 732,920	\$ 699,285
ALLOCATED SURPLUS		
Balance at January 1	\$ 5,245,083	\$ 5,045,419
Issued	600,000	600,000
Retired	(655,818)	(600,336)
Balance at September 30	\$ 5,189,265	\$ 5,045,083
UNALLOCATED SURPLUS		
Balance at January 1	\$ 39,377,085	\$ 37,139,646
Net Income	3,405,782	2,750,065
Patronage distribution accrued:		
Cash	(600,000)	(600,000)
Allocated surplus	(600,000)	(600,000)
Adjustment for change in measurement date of pension valuation for FAS 158	0	13,742
Balance at September 30	\$ 41,582,867	\$ 38,703,453
OTHER COMPREHENSIVE INCOME		
Balance at January 1	\$ 279,874	\$ 271,622
Change in Other Comprehensive Income related to cash flow hedges, net of tax	(295,941)	2,652
Adjustment for FAS 158	0	8,289
Balance at September 30	\$ (16,067)	\$ 282,563

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

FARM CREDIT OF MAINE, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(Unaudited)

NOTE 1 - Organization and Significant Accounting Policies

A description of the organization and operations of Farm Credit of Maine, 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 Stockholders. These unaudited third quarter 2009 financial statements should be read in conjunction with the 2008 Annual Report to Stockholders.

Effective January 1, 2009, the Association adopted the Financial Accounting Standards Board (FASB) guidance on "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities. The guidance requires that an entity with derivative instruments shall disclose information to enable users of the financial statements to understand:

- a. How and why an entity uses derivative instruments
- b. How derivative instruments and related hedged items are accounted for under this Statement and related interpretations
- c. How derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

The adoption of this guidance did not have an impact on the Association's financial position, results of operations or cash flows; however, the derivative instruments disclosures have been expanded as disclosed in Note 7.

Effective January 1, 2009, the Association adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures but does not have an impact on our financial condition or results of operations.

In May 2009, the FASB issued guidance, "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. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). 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 guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009.

The accompanying 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 and prevailing practices within the banking industry. The results of operations for the nine month period ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 - Allowance for Credit Losses

The following table presents an analysis of the allowance for credit losses as of September 30:

	<u>2009</u>	<u>2008</u>
Balance at beginning of quarter	\$ 1,816,960	\$ 1,137,552
Provision for losses	460,053	113,199
Charge-offs	0	52,658
Recoveries	672	0
Balance at end of quarter	<u>\$ 2,277,685</u>	<u>\$ 1,198,093</u>

The following table presents information concerning impaired loans as of September 30:

	<u>2009</u>	<u>2008</u>
Impaired loans with related allowance	\$ 2,031,938	\$ 1,564,529
Impaired loans with no related allowance	0	0
Total impaired loans	<u>2,031,938</u>	<u>1,564,529</u>
Allowance on impaired loans	<u>\$ 264,386</u>	<u>\$ 56,426</u>

The following table summarizes impaired loan information for the nine months ended September 30:

	<u>2009</u>	<u>2008</u>
Average impaired loans	<u>\$ 1,278,217</u>	<u>\$ 1,163,032</u>
Interest income recognized on impaired loans	<u>\$ 67,106</u>	<u>\$ 21,657</u>

NOTE 3 - Capital

In accordance with the Farm Credit Act, the Association's Capitalization Bylaws and Capitalization Plan, each borrower, as a condition of borrowing, shall purchase at the time the loan is made, Class B Stock for agricultural loans or Class B Participation Certificates for country home and farm related business loans.

All stock and participation certificates are retired at the discretion of the Board of Directors after considering the Association's Capitalization Plan as well as regulatory and other requirements.

The Farm Credit Administration ("FCA") governs capital adequacy for Farm Credit System ("System") institutions and has established a 7 percent ratio requirement of total surplus to risk-adjusted assets and a 3.5 percent ratio requirement of core surplus to risk-adjusted assets for System institutions. Only the portion of surplus the Association is allowed to count under its allotment agreement with CoBank, ACB ("CoBank") is included in total surplus. Core surplus is net of the Association's total investment in CoBank. As of September 30, 2009, the Association is in compliance with these FCA capital adequacy requirements.

The Association continues to maintain a strategic business goal to return a portion of its earnings for 2009 to the membership as a patronage dividend. The patronage is being accrued on a monthly basis and is based on the patronage estimate in the 2009 financial plan. The actual patronage for 2009 will depend on financial results for the year as a whole.

NOTE 4 - Income Taxes

There were no significant changes in the composition or valuation of tax assets/liabilities during the first nine months of 2009.

NOTE 5 – Fair Value Measurements

Authoritative guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2008 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at a fair value on a recurring basis at September 30, 2009 are summarized below:

	Fair Value Measurement Using			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Assets:				
Interest Rate Swaps	\$ 0	\$ 623,235	\$ 0	\$ 623,235
Total assets	<u>\$ 0</u>	<u>\$ 623,235</u>	<u>\$ 0</u>	<u>\$ 623,235</u>
Liabilities:				
Interest Rate Swaps	\$ 0	\$ 6,481	\$ 0	\$ 6,481
Total liabilities	<u>\$ 0</u>	<u>\$ 6,481</u>	<u>\$ 0</u>	<u>\$ 6,481</u>

Assets and liabilities measured at a fair value on a non-recurring basis at September 30, 2009 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Assets:				
Nonaccrual loans	\$ 0	\$ 0	\$ 2,031,938	\$ 2,031,938
Total assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,031,938</u>	<u>\$ 2,031,938</u>
Liabilities:				
Nonaccrual loans	\$ 0	\$ 0	\$ 0	\$ 0
Total liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Valuation Techniques

As more fully discussed in Note 1 to the 2008 Annual Report to Stockholders, authoritative guidance 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 represent a brief summary of the valuation techniques used for the related Association's assets and liabilities:

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the Association's derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options and credit default swaps. Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively or have trade activity that is one way are classified within Level 3 of the valuation hierarchy.

Nonaccrual Loans

For certain loans evaluated for impairment under SFAS No. 114, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. These loans are generally classified as Level 3. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

NOTE 6 - Employee Benefit Plans

The following table summarizes the components of net periodic benefit costs for the nine months ended September 30:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Service cost	\$ 0	\$ 0	\$ 3,305	\$ 1,917
Interest cost	69,613	54,027	2,093	1,594
Expected return on plan assets	(114,026)	(96,765)	0	0
Amortization of prior service costs	3,709	1,509	(12,748)	(12,748)
Amortization of net (gain) loss	1,751	0	3,374	2,568
Net periodic benefit cost	<u>\$ (38,953)</u>	<u>\$ (41,229)</u>	<u>\$ (3,976)</u>	<u>\$ (6,669)</u>

As of September 30, 2009, \$60,501 of contributions have been made to the Association's pension plan. The Association presently anticipates contributing an additional \$60,499 to fund its pension plan in 2009 for a total of \$121,000.

NOTE 7 – Derivative Financial Instruments and Hedging Activities

Effective January 1, 2009, the Association adopted guidance, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required.

The Association enters into derivatives, particularly interest rate swaps, to stabilize net interest income on variable priced loan assets, to the degree they are funded with equity. Under interest rate swap arrangements, the Association agrees with other parties (CoBank) to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index. Please see the 2008 Annual Report to Shareholders, Note 2 and Note 14, for a complete description.

NOTE 8 – Subsequent Events

The Association has evaluated subsequent events through November 5, 2009, which is the date the financial statements were available to be issued.

Since all Shareholders' investments in the Association are materially affected by the financial condition and results of operations of CoBank, a copy of CoBank's annual and quarterly reports are available upon request at no charge. If so desired, a copy may be picked up, or one of the following offices can arrange to have a copy mailed:

Farm Credit of Maine, ACA

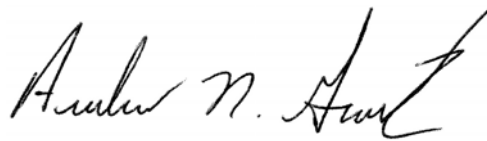
615 Minot Avenue
Auburn, ME 04210
784-0193
800-831-4230

26 Rice Street
Suite 1
Presque Isle, ME 04769
764-6431
800-831-4640

The undersigned certify that this report has been prepared in accordance with all applicable statutory and regulatory requirements and that the information contained herein is true, accurate, and complete to the best of his knowledge and belief. The financial statements in the opinion of management fairly present the financial condition of the institution except as otherwise noted.



Raymond J. Nowak
President and Chief Executive Officer



Andrew N. Grant
Vice President, Chief Financial Officer and Treasurer



Hank E. McPherson
Board of Directors, Chair



Donald P. White
Board of Directors
Audit Committee, Chair

November 5, 2009