

# ALABAMA FARM CREDIT, ACA

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**2011**  
**Quarterly Report**  
**First Quarter**



**For the Quarter Ended March 31, 2011**

## REPORT OF MANAGEMENT

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



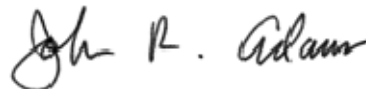
K. Ben Gore, Chief Executive Officer/President  
*May 10, 2011*



Loyd Rutherford, Chairman, Board of Directors  
*May 10, 2011*



Karri H. Sumrall, Chief Financial Officer/Sr. Vice President  
*May 10, 2011*



John R. Adams, CPA, Chairman, Audit Committee  
*May 10, 2011*

**ALABAMA FARM CREDIT, ACA  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Alabama Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and three months ended March 31, 2011. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2010 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association’s audit committee.

**Significant Events:**

In January 2011, the board of directors approved a resolution for a \$3,360,000 patronage payment to its stockholders based on its 2010 patronage source net income. This distribution was paid in March 2011.

On April 27, 2011, many of the Association’s twenty-seven counties it serves were affected by the line of storms and tornadoes that passed through the state of Alabama. The Association is working closely with its borrowers to ensure proper servicing and attention is given to borrowers and their accounts while also protecting the Association’s collateral interest. The Association had approximately seven dwellings totally destroyed and eighty poultry houses that were either damaged or totally destroyed. These type facilities have insurance requirements that include income loss clauses that would help borrowers maintain their income stream until they could rebuild if they choose to do so. It is the opinion of management that although some borrowers may elect not to rebuild and use their insurance loss proceeds to pay down their loans, it should not materially affect the Association’s financial position.

**Loan Portfolio:**

The Association makes and services loans to farmer, ranchers, rural homeowners and certain farm-related businesses. The Association’s loan volume consists of long-term farm mortgage loans, production and intermediate term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive fixed, adjustable and indexed-based interest rates and loan maturities ranging up to 40 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with seasonal cash-flow capabilities of the borrower.

Total loans outstanding at March 31, 2011, consisted of 2,701 loans, including nonaccrual loans, were \$408,394,599 compared to \$409,962,715 at December 31, 2010. The total loan volume, stated as recorded investment, reflecting a decrease of \$1,568,116 or 0.4 percent since December 31, 2010, primarily due to the decrease in the Association’s capital markets portfolio segment. Nonaccrual loans as a percentage of total loans outstanding were 1.8 percent at March 31, 2011, compared to 1.3 percent at December 31, 2010.

	March 31, 2011	December 31, 2010
Acceptable	82.3%	83.0%
Special mention	13.7%	13.7%
Substandard	4.0%	3.3%
Total	100.0%	100.0%

The Association’s credit quality began to deteriorate slightly in late 2008 due primarily to the impact of a poultry integrator in the Association’s territory filing Chapter 11 bankruptcy. This bankruptcy has had a residual effect on Association grower borrowers as a result of the inherent counterparty risk associated with the integrator. In 2009, the integrator emerged from bankruptcy and the Association has not experienced any adverse effects to growers with Association loans to date. At March 31, 2011, Association loans to growers of this integrator consisted of 335 loans representing \$77.7 million in volume, of which \$33.1 million are government guaranteed. The Association anticipates these producer loans will be upgraded sometime in late 2011-2012 once approval from Farm Credit Administration is received.

The Association’s largest commodity concentration in its loan portfolio continues to be poultry, which is approximately 51.2 percent. The industry is showing signs of returning to normal with demand for poultry improving. Overall, the industry remains

mostly stable. Stocking densities, downtime between grow-out cycles and demand for poultry products have improved to more typical ranges. Production in 2011 should remain stable or increase due to higher demand in overseas markets. Increase in broiler production compared to the prior year should support increased prices and should continue favorably. As discussed previously, the effect of the storms that hit the Association's territory in April should not significantly affect the poultry industry as a whole.

Commodity prices remain volatile for production agricultural borrowers but remain high compared to the five year average for corn, cotton and soybean growers. These higher prices are partially offset by higher input cost and lower government payments. Livestock producers have seen higher prices for cattle sold due to the overall low inventory of cattle nationwide and good demand for beef products. The majority of Association livestock producers have considerable nonfarm income which should lessen the impact of price volatility. The decline in the general economy has shown minimal effects on the Association's non-agricultural income dependent borrowers and their repayment abilities at this time. Delinquency percentages of total volume continue to be slightly above or in-line with prior years' percentages.

Timber markets in 2010 continued to be depressed due to the decreased demand from the housing market. Indicators for 2011 show that timber prices will remain relatively stable with no evidence of a strong recovery seen at this time. We will continue to work with our borrowers as all market segments make corrections with minimal restructuring.

Overall land values have remained fairly stable or have seen a slight decline in some areas of the Association territory based on the current economic climate. The agricultural economy, in general for the area, has seen a slight decline. This can be seen in the Association's slight decrease in credit quality volume over the last 12 to 18 months.

The probability of higher input costs, questions about future commodity supplies and prices, uncertainty of the export markets and unfolding world events increase the level of financial risk in the farming sector and, likewise, the level of credit risk to those financial institutions providing credit to that sector. Given the conditions outlined herein, the quality of the loan portfolio is expected to remain constant or slightly deteriorate throughout 2011, as a result of a continued weak agricultural economy. The duration of the conditions described is a concern that has the potential to be more problematic for financial results over the longer term for both the lender and the operator. Continued diligence in the areas of credit controls and monitoring is essential.

**Risk Exposure:**

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	<b>March 31, 2011</b>		<b>December 31, 2010</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Nonaccrual	\$ 7,442,982	75.8%	\$ 5,375,102	69.1%
90 days past due and still accruing interest	80,835	0.8%	498,014	6.4%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	2,298,321	23.4%	1,900,967	24.5%
<b>Total</b>	<b>\$ 9,822,138</b>	<b>100.0%</b>	<b>\$ 7,774,083</b>	<b>100.0%</b>

High-risk assets increased by \$2,048,055 or 26.3 percent primarily due to the increase in nonaccrual volume and other property owned as a result of the Association acquiring collateral, through foreclosure proceedings, two new properties within the Association's lending territory. As of March 31, 2011, the Association held ten properties on its books. The Association is actively working to ensure properties are accurately valued on the Association's books and that proactive marketing activities are in place. The increase in nonaccrual assets from 2010 to 2011 is derived primarily as a result of the receipt of scheduled principal and interest payments becoming questionable due to economic stress surrounding personal income and commodity prices on core business loans. Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable.

The Association, in the normal course of business, has participation loans with other Farm Credit associations and Farm Credit banks. The Association holds interests in loans with geographic or industry related risks that have warranted risk rating reclassifications to nonaccrual status. Performance of these loans remains uncertain even though management constantly monitors these accounts.

Counterparty risk is continually monitored by management of the Association. The Association's primary counterparty risk comes from the poultry integrators to which its borrowers are associated. Because the Association's portfolio has such a high concentration in poultry, it mitigates its inherent risks with poultry and the integrators by heavy utilization of government guarantees. Also, the Association's lending territory has multiple integrators which would minimize the risk of counterparty failure or lack of performance. Management analyzes the financial position and performance of these integrators by regularly gathering updated financials and other reports that are made available to the public.

The Association recorded no recoveries or charge-offs for the quarter ending March 31, 2011, and no recoveries or charge-offs for the same period in 2010. The Association's allowance for loan losses was 0.4 percent and 0.4 percent of total loans outstanding as of March 31, 2011, and December 31, 2010, respectively.

As disclosed in the Association's 2010 Annual Report, it is management's assertion that the allowance coverage is adequate based on historical losses, portfolio stress testing, risk analysis, mitigation of losses due to having first lien real estate with minimal to no price appreciation and having \$75.0 million or 18.4 percent of its portfolio federal or state guaranteed. Management continuously monitors high-risk assets in an effort to reduce their impact on the Association and will continue to work with all of the Association's high-risk borrowers to receive full payment on the debt. Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

### **Results of Operations:**

The Association had net income of \$2,201,705 for the three months ended March 31, 2011, as compared to net income of \$1,906,948 for the same period in 2010 reflecting an increase of 15.5 percent. This slight increase was a result of increased net interest income and noninterest income offset by a minimal increase in noninterest expenses compared to the same period in 2010.

Net interest income was \$3,413,848 for the three months ended March 31, 2011, compared to \$3,116,049 for the same period in 2010. Interest income for the first three months of 2011 decreased by \$313,536, or 5.0 percent, from the same period of 2010, primarily due to declines in yields on earning assets offset by an increase in average loan volume. Average loan volume for the first quarter of 2011 was \$409,791,008, compared to \$407,570,757 in the first quarter of 2010. The Association's loan growth has declined primarily as a result of payoffs in the participation loan segment and slight decrease in demand for loans in some of the Association's territory.

Interest expense for the first three months of 2011 decreased by \$611,335, or 19.6 percent, from the same period of 2010 due to a decrease in debt rates and average debt volume compared to the same period in 2010. Average debt volume for the first quarter of 2011 was \$346,623,237, compared to \$348,281,515 in the first quarter of 2010.

The Association offers both fixed and indexed priced loans. These different type loans have different spreads and therefore provide differing net interest margins to the Association. The average spread on the loan portfolio for the first quarter of 2011 increased 0.36 percent, compared to the first quarter of 2010. This increase continues to be the result of the current volatile economy and credit markets response to that environment.

Noninterest income for the three months ended 2011 increased by \$125,632, or 49.1 percent, compared to the same period in 2010 due primarily to the Association recording more patronage income from the Bank compared to the same period in 2010. This increase was offset primarily due to a decrease in loan fees as a result of implementing authoritative accounting guidance in December 2010 requiring the capitalization and amortization of loan origination fees and costs that was not in effect the first three months of 2010. This implementation resulted in the capitalization of \$171,929 in origination fees, which will be amortized over the life of the loans as an adjustment to yield in net interest income.

Noninterest expenses for the three months ended March 31, 2011 increased \$59,893 or 4.0 percent, as compared to the same period in 2009. The increase is due primarily to a net loss on acquired property being recognized in the first three months of 2011 compared to a net gain being recorded during the same period in 2010, increased provisions for acquired property losses due to changes in acquired property values and increased business insurance premium costs in 2011 compared to 2010. These increases were offset by a decrease in salaries and employee benefits, advertising costs and Farm Credit System Insurance Corporation (FCSIC) expense compared to the same period in 2010. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs was implemented and recorded for the entire year in December 2010, resulting in the capitalization of \$141,515 in origination costs (primarily salaries and benefits), which will be amortized over the life of the loans as an adjustment to yield in net interest income. The decrease in advertising expense is the direct result of the Association advertising more in 2010 to heighten public awareness of new name change and new ACA structure compared to the same period in 2011. The

decrease in FCSIC insurance is due to a change in the premium base from 10 basis points for the first three months in 2010 to 5 basis points for the same period in 2011.

The Association's annualized return on average assets for the three months ended March 31, 2011, was 2.1 percent compared to 1.8 percent for the same period in 2010. The Association's annualized return on average equity for the three months ended March 31, 2011, was 11.9 percent, compared to 11.2 percent for the same period in 2010.

**Liquidity and Funding Sources:**

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	<b>March 31, 2011</b>	December 31, 2010
Note payable to the bank	<b>\$ 346,443,434</b>	\$ 344,869,304
Accrued interest on note payable	<b>856,053</b>	889,348
Total	<b>\$ 347,299,487</b>	\$ 345,758,652

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The Association will continue to fund its operations through direct borrowings from the Bank, retained earnings, member stock and funds held. It is management's opinion that funds available to the Association are sufficient to fund its operations for the current year.

**Capital Resources:**

The Association's capital position increased by \$2,198,647 at March 31, 2011, compared to December 31, 2010. The Association's debt as a percentage of members' equity was 4.63:1 as of March 31, 2011, compared to 4.79:1 as of December 31, 2010.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2011, was 18.9 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2011, were 18.2 and 18.2 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

**Significant Recent Accounting Pronouncements:**

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delays the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring will be coordinated and is anticipated to be effective for periods ending after June 15, 2011.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses," which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December

15, 2010. The adoption of this Standard should have no impact on the Association's financial condition or results of operations, but will result in additional disclosures.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the Association's financial condition and results of operations but resulted in additional disclosures.

#### **Relationship with the Farm Credit Bank of Texas:**

The Association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2010 Annual Report of Alabama Farm Credit, ACA more fully describe the Association's relationship with the bank.

The Texas Farm Credit District's (district) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at [fcb@farmcreditbank.com](mailto:fcb@farmcreditbank.com). The district makes its annual and quarterly stockholder reports available on its website at [www.farmcreditbank.com](http://www.farmcreditbank.com).

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Alabama Farm Credit, ACA, P.O. Box 639, Cullman, Alabama 35056 or calling (256) 737-7128. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [karri.sumrall@farmcreditbank.com](mailto:karri.sumrall@farmcreditbank.com) or can be obtain on its web site at [www.alabamalandbank.com](http://www.alabamalandbank.com) 40 days after quarter end. The Association's annual stockholder report is available on its Web site at [www.alabamalandbank.com](http://www.alabamalandbank.com) 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

**ALABAMA FARM CREDIT, ACA**  
**CONSOLIDATED BALANCE SHEET**

	<b>March 31, 2011 (unaudited)</b>	<b>December 31, 2010</b>
<b><u>ASSETS</u></b>		
Cash	\$ 11,034	\$ 5,842
Loans	408,394,599	409,962,715
Less: allowance for loan losses	1,524,856	1,490,624
Net loans	<u>406,869,743</u>	<u>408,472,091</u>
Accrued interest receivable	5,774,323	5,246,279
Investment in and receivable from the bank:		
Capital stock	6,956,070	6,956,070
Other	584,721	1,020
Other property owned, net	2,298,321	1,900,967
Premises and equipment	3,673,952	3,713,047
Other assets	838,157	220,687
Total assets	<u><u>\$ 427,006,321</u></u>	<u><u>\$ 426,516,003</u></u>
<b><u>LIABILITIES</u></b>		
Note payable to the bank	\$ 346,443,434	\$ 344,869,304
Accrued interest payable	856,053	889,348
Drafts outstanding	1,453,963	1,272,716
Patronage distributions payable	102	3,637,140
Other liabilities	2,393,700	2,187,073
Total liabilities	<u><u>351,147,252</u></u>	<u><u>352,855,581</u></u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	2,483,225	2,474,920
Unallocated retained earnings	73,343,329	71,141,624
Accumulated other comprehensive income	32,515	43,878
Total members' equity	<u><u>75,859,069</u></u>	<u><u>73,660,422</u></u>
Total liabilities and members' equity	<u><u>\$ 427,006,321</u></u>	<u><u>\$ 426,516,003</u></u>

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME  
(unaudited)

	Quarter Ended	
	March 31,	
	2011	2010
<b><u>INTEREST INCOME</u></b>		
Loans	\$ 5,923,933	\$ 6,237,469
Total interest income	5,923,933	6,237,469
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the bank	2,510,085	3,121,420
Total interest expense	2,510,085	3,121,420
Net interest income	3,413,848	3,116,049
<b><u>PROVISION FOR (REVERSAL OF)</u></b>		
<b><u>LOAN LOSSES</u></b>		
	34,232	(34,549)
Net interest income after provision for loan losses	3,379,616	3,150,598
<b><u>NONINTEREST INCOME</u></b>		
Income from the bank:		
Patronage income	305,245	62,264
Loan fees	67,922	160,037
Financially related services income	6,323	6,845
Gain on sale of premises and equipment, net	1,936	6,612
Other noninterest income	112	20,148
Total noninterest income	381,538	255,906
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	858,128	1,048,991
Directors' expense	78,134	69,471
Purchased services	140,528	125,504
Travel	70,086	56,415
Occupancy and equipment	62,266	46,173
Communications	20,197	15,279
Advertising	31,379	77,268
Public and member relations	33,240	36,392
Supervisory and exam expense	35,240	33,481
Insurance Fund premiums	40,386	67,508
Business insurance premiums	59,723	32,740
Provision for (reversal of) acquired property losses	73,929	(1,542)
Loss (gain) on other property owned, net	29,379	(141,238)
Other noninterest expense	26,834	33,114
Total noninterest expenses	1,559,449	1,499,556
Income before income taxes	2,201,705	1,906,948
Provision for (benefit from) income taxes	-	-
Net income	\$ 2,201,705	\$ 1,906,948

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<b>Capital Stock/ Participation Certificates</b>	<b>Retained Earnings Unallocated</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Members' Equity</b>
Balance at December 31, 2009	\$ 2,432,380	\$ 65,533,125	\$ 277,186	\$ 68,242,691
Comprehensive income				
Net income	-	1,906,948	-	1,906,948
Change in postretirement benefit plans	-	-	(13,967)	(13,967)
Total comprehensive income	-	1,906,948	(13,967)	1,892,981
Capital stock/participation certificates issued	57,525	-	-	57,525
Capital stock/participation certificates retired	(48,405)	-	-	(48,405)
Balance at March 31, 2010	<u>\$ 2,441,500</u>	<u>\$ 67,440,073</u>	<u>\$ 263,219</u>	<u>\$ 70,144,792</u>
Balance at December 31, 2010	\$ 2,474,920	\$ 71,141,624	\$ 43,878	\$ 73,660,422
Comprehensive income				
Net income	-	2,201,705	-	2,201,705
Change in postretirement benefit plans	-	-	(11,363)	(11,363)
Total comprehensive income	-	2,201,705	(11,363)	2,190,342
Capital stock/participation certificates issued	78,895	-	-	78,895
Capital stock/participation certificates retired	(70,590)	-	-	(70,590)
<b>Balance at March 31, 2011</b>	<b><u>\$ 2,483,225</u></b>	<b><u>\$ 73,343,329</u></b>	<b><u>\$ 32,515</u></b>	<b><u>\$ 75,859,069</u></b>

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

**ALABAMA FARM CREDIT, ACA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(UNAUDITED)

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The Alabama Farm Credit, ACA, including its wholly-owned subsidiaries, Alabama Farm Credit, PCA and FLBA of North Alabama, FLCA (collectively called “the Association”), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Blount, Calhoun, Cherokee, Clay, Cleburne, Colbert, Cullman, DeKalb, Etowah, Fayette, Franklin, Jackson, Jefferson, Lamar, Lauderdale, Lawrence, Limestone, Madison, Marion, Marshall, Morgan, Randolph, Shelby, St. Clair, Talladega, Walker and Winston in the state of Alabama.

The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The significant accounting policies followed and the financial condition and results of operations of the Association as of and for the year ended December 31, 2010 are contained in the 2010 Annual Report to Stockholders. These unaudited first quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Stockholders.

The Farm Credit Bank of Texas (FCBT) and its related Associations are collectively referred to as the “District.” The Association’s financial condition may be affected by factors that affect the FCBT. The financial condition and results of operations of the FCBT may materially affect stockholders’ investment in the Association. Upon request, stockholders of the Association will be provided the Tenth Farm Credit District’s Annual Report to Stockholders, which includes the combined financial statements of the FCBT and all of the District Associations. The District’s annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the FCBT and the District. In addition, the District’s annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Farm Credit System Insurance Corporation.

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings.” This guidance temporarily delays the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring will be coordinated and is anticipated to be effective for periods ending after June 15, 2011.

In July 2010, the FASB issued guidance on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses,” which is intended to provide additional information to assist financial statement users in assessing an entity’s credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard should have no impact on the Association’s financial condition or results of operations, but will result in additional disclosures.

In January 2010, the FASB issued guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within

those fiscal years. The adoption of this Standard did not impact the Association's financial condition and results of operations but resulted in additional disclosures.

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, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended March 31, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

## NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	March 31, 2011 Amount	December 31, 2010 Amount
Production agriculture:		
Real estate mortgage	\$ 398,684,448	\$ 400,066,360
Rural residential real estate	5,249,491	5,306,828
Production and intermediate term	2,875,723	2,977,675
Agribusiness:		
Processing and marketing	1,570,918	1,597,382
Farm-related business	14,019	14,470
Total	\$ 408,394,599	\$ 409,962,715

The Association had no purchases or sales of participation interests with other parties during the quarter ended March 31, 2011.

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

	March 31, 2011	December 31, 2010
Balance at beginning of quarter	\$ 1,490,624	\$ 1,304,301
Provision for loan losses	34,232	170,105
Charge-offs	-	(439)
Recoveries	-	16,657
Balance at end of quarter	\$ 1,524,856	\$ 1,490,624

High Risk assets (including related accrued interest) and related credit quality statistics are as follows:

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 7,428,963	\$ 5,360,632
Agribusiness	14,019	14,470
Total nonaccrual loans	<u>7,442,982</u>	<u>5,375,102</u>
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	80,835	498,014
Total accruing loans 90 days or more	<u>80,835</u>	<u>498,014</u>
Total nonperforming loans	7,523,817	5,873,116
Other property owned	<u>2,298,321</u>	<u>1,900,967</u>
Total nonperforming assets	<u>\$ 9,822,138</u>	<u>\$ 7,774,083</u>

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Real estate mortgage		
Acceptable	80.5%	81.1%
OAEM	13.6%	13.6%
Substandard/doubtful	<u>3.6%</u>	<u>3.0%</u>
	97.6%	97.6%
Production and intermediate term		
Acceptable	0.6%	0.7%
OAEM	0.1%	0.1%
Substandard/doubtful	<u>0.0%</u>	<u>0.0%</u>
	0.7%	0.7%
Processing and marketing		
Acceptable	0.0%	0.0%
OAEM	0.0%	0.0%
Substandard/doubtful	<u>0.4%</u>	<u>0.4%</u>
	0.4%	0.4%
Rural residential real estate		
Acceptable	1.2%	1.2%
OAEM	0.0%	0.0%
Substandard/doubtful	<u>0.0%</u>	<u>0.0%</u>
	1.3%	1.3%
Total Loans		
Acceptable	82.3%	83.0%
OAEM	13.7%	13.7%
Substandard/doubtful	<u>4.0%</u>	<u>3.3%</u>
	100.0%	100.0%

The following table provides an age analysis of past due loans (including accrued interest) as of March 31, 2011:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 3,771,900	\$ 4,096,274	\$ 7,868,174	\$ 396,527,359	\$ 404,395,533	\$ 80,835
Rural residential real estate	24,736	-	24,736	5,246,806	5,271,542	-
Production and intermediate term	-	-	-	2,916,743	2,916,743.00	-
Processing and marketing	-	-	-	1,571,085	1,571,085.00	-
Farm-related business	-	-	-	14,019	14,019.00	-
Total	\$ 3,796,636	\$ 4,096,274	\$ 7,892,910	\$ 406,276,012	\$ 414,168,922	\$ 80,835

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

Additional impaired loan information is as follows:

	At March 31, 2011			For the Three Months Ended March 31, 2011	
	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 3,436,879	\$ 4,479,329	\$ 186,750	\$ 2,490,015	\$ 29,587
Total	\$ 3,436,879	\$ 4,479,329	\$ 186,750	\$ 2,490,015	\$ 29,587
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 4,072,919	\$ 4,408,154	\$ -	\$ 3,645,778	\$ 526
Farm-related business	14,019	14,019	-	14,299	-
Total	\$ 4,086,938	\$ 4,422,173	\$ -	\$ 3,660,077	\$ 526
Total impaired loans:					
Real estate mortgage	\$ 7,509,798	\$ 8,887,483	\$ 186,750	\$ 6,135,793	\$ 30,113
Farm-related business	14,019	14,019	-	14,299	-
Total	\$ 7,523,817	\$ 8,901,502	\$ 186,750	\$ 6,150,092	\$ 30,113

	At December 31, 2010			For the Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 1,203,874	\$ 1,203,873	\$ 142,000	\$ 2,978,708	\$ -
Total	\$ 1,203,874	\$ 1,203,873	\$ 142,000	\$ 2,978,708	\$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 4,654,772	\$ 4,654,840	\$ -	\$ 3,155,093	\$ 106,808
Farm-related business	14,470	14,470	-	4,674	-
Total	\$ 4,669,242	\$ 4,669,310	\$ -	\$ 3,159,767	\$ 106,808
Total impaired loans:					
Real estate mortgage	\$ 5,858,646	\$ 5,858,713	\$ 142,000	\$ 6,133,801	\$ 106,808
Farm-related business	14,470	14,470	-	4,674	-
Total	\$ 5,873,116	\$ 5,873,183	\$ 142,000	\$ 6,138,475	\$ 106,808

<sup>a</sup> Unpaid principal balance represents the recorded principal balance of the loan.

A summary of changes in the allowance for loan losses and period end recorded investment (including accrued interest) in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Rural Residential Real Estate	Total
<b>Allowance for Credit Losses:</b>					
Balance at					
December 31, 2010	\$ 1,490,624	\$ -	\$ -	\$ -	\$ 1,490,624
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision for loan losses	34,232	-	-	-	34,232
Balance at					
March 31, 2011	\$ 1,524,856	\$ -	\$ -	\$ -	\$ 1,524,856
Ending Balance:					
individually evaluated for impairment	\$ 198,620	\$ -	\$ -	\$ -	\$ 198,620
Ending Balance:					
collectively evaluated for impairment	\$ 1,326,236	\$ -	\$ -	\$ -	\$ 1,326,236
<b>Recorded Investments in Loans Outstanding:</b>					
Ending Balance at					
March 31, 2011	\$ 405,097,026	\$ 2,215,250	\$ 1,585,104	\$ 5,271,542	\$ 414,168,922
Ending Balance for loans individually evaluated for impairment	\$ 8,125,809	\$ -	\$ 14,019	\$ -	\$ 8,139,828
Ending Balance for loans collectively evaluated for impairment	\$ 396,971,217	\$ 2,215,250	\$ 1,571,085	\$ 5,271,542	\$ 406,029,094

### **NOTE 3 — CAPITAL:**

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected patronage payments, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

### **NOTE 4 – CAPITAL MARKETS**

Until the second quarter of 2007, the Association participated in the Capital Markets of the South (CMS), a joint venture created in 2003 for the purpose of expanding the participants' lending opportunities. The CMS group was comprised of the Association, Alabama Ag Credit, ACA, Mississippi Land Bank, ACA, Southern Ag Credit, ACA, and Louisiana Land Bank, ACA. During the second quarter of 2007, the CMS members decided to discontinue and dissolve the joint venture. The associations will continue to service the existing CMS loan portfolio, with revenue and expenses continuing to be shared accordingly as noted below, until such time as all of the loans are fully matured or paid off.

Pursuant to the terms of the alliance, each of the five CMS participating associations generally shares equally in the costs of operating the venture. The Association's pro-rata share of income from CMS operations is recorded in the statement of income in their respective line items. The Association's pro-rata share of expenses from CMS operations is recorded in the statement of income in the line item "Purchased services."

As of March 31, 2011 and December 31, 2010, the Association had CMS related loan volume outstanding in the amount of \$9,375,299 and \$10,693,555 respectively. In addition, the Association had unfunded commitments on CMS loans of \$976,523 as of March 31, 2011.

### **NOTE 5 — INCOME TAXES:**

Alabama Farm Credit, ACA and its subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During the three months ended March 31, 2011, the Association did participate in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended March 31, 2011, and 2010, the Association had no taxable income and recognized no tax deferments.

The subsidiary, FLBA of North Alabama, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

## NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB 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 12 to the 2010 Annual Report to Stockholders for a more complete description.

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

<u>March 31, 2011</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans *	\$ -	\$ -	\$ 7,365,989	\$ 7,365,989	\$ -
Other property owned	-	-	2,298,321	2,298,321	(103,308)
<u>December 31, 2010</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans *	\$ -	\$ -	\$ 6,412,615	\$ 6,412,615	#####
Other property owned	-	-	1,900,967	1,900,967	-

\*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance, "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

### Valuation Techniques

As more fully discussed in Note 12 to the 2010 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 Associations' assets and liabilities. For a more complete description, see Notes to the 2010 Annual Report to Stockholders.

#### *Loans*

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. 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.

#### *Other Property Owned*

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

**NOTE 7 — EMPLOYEE BENEFIT PLANS:**

The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the three months ended March 31, :

	Other Benefits	
	2011	2010
Service cost	\$ 6,408	\$ 5,342
Interest cost	18,081	15,677
Expected return on plan assets	-	-
Amortization of prior service costs	(13,636)	(13,967)
Amortizations of net (gain) loss	2,272	-
Net periodic benefit cost	\$ 13,125	\$ 7,052

The Association previously disclosed in its financial statements for the year ended December 31, 2010, that it expected to contribute \$30,594 to its defined pension plan in 2011. As of March 31, 2011, \$6,877 of contributions have been made. The Association presently anticipates contributing an additional \$22,945 to fund its defined pension plan in 2011 for a total of \$29,823.

**NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:**

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

**NOTE 9 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through May 10, 2011, which is the date the financial statements were issued.