



# Alabama *Farm Credit*

**2010 Annual Report**

December 31, 2010



Part of the Farm Credit System

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## REPORT OF MANAGEMENT

The consolidated financial statements of Alabama Farm Credit, ACA (Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The board of directors has overall responsibility for the Association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

The undersigned certify that this annual report has been reviewed and 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 or belief.



K. Ben Gore, Chief Executive Officer/ President

February 28, 2011



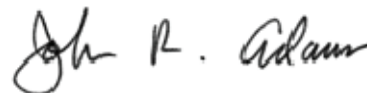
Loyd Rutherford, Chairman, Board of Directors

February 28, 2011



Karri H. Sumrall, Chief Financial Officer/Sr. Vice President

February 28, 2011



John R. Adams, CPA, Chairman, Audit Committee

February 28, 2011

## REPORT OF AUDIT COMMITTEE

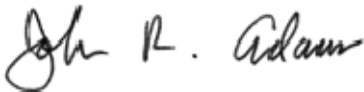
The audit committee (committee) is composed of John R. Adams, CPA, Chairman, Larry Don McGee, and Matthew Christjohn, DVM, who are directors of Alabama Farm Credit, ACA (Association). In 2010, seven committee meetings were held. The committee oversees the scope of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the audit committee charter, which is available on request or on the Association's website. The committee approved the appointment of PricewaterhouseCoopers LLP for 2010.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the committee. PricewaterhouseCoopers is responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The committee's responsibilities include monitoring and overseeing the processes.

In this context, the committee reviewed and discussed the Association's audited consolidated financial statements for the year ended December 31, 2010 (audited consolidated financial statements) with management and PricewaterhouseCoopers. The committee also reviews with PricewaterhouseCoopers the matters required to be discussed by authoritative guidance, "The Auditor's Communication With Those Charged With Governance," and both PricewaterhouseCoopers and the Association's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PricewaterhouseCoopers LLP its independence from the Association. The committee also reviewed the non-audit services provided by PricewaterhouseCoopers and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and PricewaterhouseCoopers such other matters and received such assurances from them as the committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in the Association's Annual Report to Stockholders for the year ended December 31, 2010.



John R. Adams, CPA, Chairman  
February 28, 2011



Larry Don McGee, Member  
February 28, 2011



Matthew Christjohn, DVM, Member  
February 28, 2011

**ALABAMA FARM CREDIT, ACA**

**FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA**  
(unaudited)  
(dollars in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>Balance Sheet Data</u></b>					
<u>Assets</u>					
Cash	\$ 6	\$ 15	\$ 15	\$ 1,140	\$ 1,237
Loans	409,963	410,152	416,516	388,046	363,103
Less: allowance for loan losses	1,491	2,181	509	402	229
Net loans	<u>408,472</u>	<u>407,971</u>	<u>416,007</u>	<u>387,644</u>	<u>362,874</u>
Investment in and receivable from the Bank	6,957	7,448	7,471	6,415	5,926
Other property owned, net	1,901	181	99	11	-
Other assets	9,180	8,049	8,396	8,351	7,972
Total assets	<u>\$ 426,516</u>	<u>\$ 423,664</u>	<u>\$ 431,988</u>	<u>\$ 403,561</u>	<u>\$ 378,009</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 7,097	\$ 4,645	\$ 5,104	\$ 4,878	\$ 2,592
Obligations with maturities greater than one year	345,759	350,777	361,621	338,554	314,565
Total liabilities	<u>352,856</u>	<u>355,422</u>	<u>366,725</u>	<u>343,432</u>	<u>317,157</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	2,475	2,432	2,460	2,375	2,249
Unallocated retained earnings	71,141	65,533	62,529	57,374	58,603
Accumulated other comprehensive income	44	277	274	380	-
Total members' equity	<u>73,660</u>	<u>68,242</u>	<u>65,263</u>	<u>60,129</u>	<u>60,852</u>
Total liabilities and members' equity	<u>\$ 426,516</u>	<u>\$ 423,664</u>	<u>\$ 431,988</u>	<u>\$ 403,561</u>	<u>\$ 378,009</u>
<b><u>Statement of Income Data</u></b>					
Net interest income	\$ 12,709	\$ 12,025	\$ 11,634	\$ 11,218	\$ 10,651
Provision for loan losses	(684)	(2,360)	(108)	(4,988)	(112)
Income from the Bank	1,972	1,708	1,370	1,308	1,182
Other noninterest income	1,010	833	1,360	1,062	1,078
Noninterest expense	(5,768)	(7,091)	(6,351)	(5,248)	(4,727)
Net income	<u>\$ 9,239</u>	<u>\$ 5,115</u>	<u>\$ 7,905</u>	<u>\$ 3,352</u>	<u>\$ 8,072</u>
<b><u>Key Financial Ratios for the Year</u></b>					
Return on average assets	2.2%	1.2%	1.9%	0.9%	2.3%
Return on average members' equity	12.8%	7.7%	12.4%	5.5%	14.3%
Net interest income as a percentage of average earning assets	3.1%	2.9%	2.9%	3.0%	3.1%
Net charge-offs as a percentage of average loans	0.3%	0.2%	0.0%	1.3%	0.0%

ALABAMA FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA  
(unaudited)  
(dollars in thousands)

	2010	2009	2008	2007	2006
<b><u>Key Financial Ratios at Year End</u></b>					
Members' equity as a percentage of total assets	17.3%	16.1%	15.1%	14.9%	16.1%
Debt as a percentage of members' equity	479.0%	520.8%	561.9%	571.2%	521.2%
Allowance for loan losses as a percentage of loans	0.4%	0.5%	0.1%	0.1%	0.1%
Permanent capital ratio	18.9%	17.1%	16.5%	16.3%	16.8%
Core surplus ratio	18.2%	16.5%	15.8%	15.6%	16.1%
Total surplus ratio	18.2%	16.5%	15.8%	15.6%	16.1%
<b><u>Net Income Distribution</u></b>					
Patronage refunds:					
Cash	\$ 2,109	\$ 2,745	\$ 2,394	\$ 2,181	\$ 726

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

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Alabama Farm Credit, ACA, including its wholly-owned subsidiaries, Alabama Farm Credit, PCA and Federal Land Bank Association of North Alabama, FLCA (Association) for the years ended December 31, 2010, 2009 and 2008, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's audit committee.

### **Forward-Looking Information:**

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will" or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease-related, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

### **Significant Events:**

In 2010, the Association recognized charge-offs of \$1,374,014. The charge-off activity was primarily related to three large participation credits. Also during 2010, the Association acquired collateral, through foreclosure proceedings, with a net carrying value of \$1,870,057 and sold two acquired properties with a net carrying value of \$149,626.

The Association acquired property during September 2010 related to a credit restructuring. A portion of the outstanding principal was charged down against existing allowance reserves, and the value of the assets received was booked at the Association's pro rata share of the assets valued at \$731,537.

In December 2010, the Association received a direct loan patronage of \$1,736,609 from the Bank, representing 50 basis points on the average daily balance of the Association's direct loan with the Bank. During 2010, the Association received \$235,407 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$14,761 from the Bank, representing 65 basis points on the Association's average balance of participations in the Bank's patronage pool program.

On September 30, 2009, pursuant to a restructuring plan approved by the Farm Credit Administration (FCA) and the Association's shareholders, the Association reorganized to form an Agricultural Credit Association (ACA). Pursuant to the restructuring plan, a Production Credit Association (PCA) was formed, Alabama Farm Credit, PCA (PCA), which, together with FLBA of North Alabama, FLCA (FLCA), became wholly-owned subsidiaries of the Association. The formation of the ACA and creation of the PCA enable the Association to make short- and intermediate-term loans for agricultural production or operating purposes through the PCA, while maintaining the tax-exempt status of long-term mortgage interest for loans generated by the FLCA.

During 2007, the Association had a participation loan (the Loan), along with 13 other Farm Credit associations, with an original funded balance of \$68,500,000, and the Association's portion of the participation was 5.6 percent. During the second quarter of 2007, the loan was deemed to be nonaccrual due to its significant undercollateralized position and a credit default. During 2007 Districtwide, charge-offs of \$30,245,000 were recognized. Alabama Farm Credit's portion of charge-offs was \$4,812,212. Alabama Farm Credit's portion of the Loan's remaining book balance was paid in full in 2009.

For over 21 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

### **Loan Portfolio:**

The Association makes and services loans to farmers, 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 loan products are available to eligible borrowers with competitive variable, fixed, adjustable and prime-based interest rates. Loan maturities range from 1 to 40 years, with cattle and equipment loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the Association's loan portfolio, including principal less funds held, was \$409,962,715, \$410,152,108 and \$416,516,223 as of December 31, 2010, 2009 and 2008, respectively. The reduction in loans outstanding in 2010 and 2009 as compared to 2008 is due primarily to decreased volume in large capital market credits. The Association has not actively participated in capital market loans since 2008. Other factors that contributed to the decrease in loan volume were less demand for loans in the Association's territory, economic and financial market deterioration, and tightened underwriting standards during 2009 and most of 2010.

The Association's largest commodity concentration in its loan portfolio continues to be poultry, which is approximately 50.7 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 since 2009. 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.

The Association's credit quality began to deteriorate slightly in late 2008 due primarily to the impact of one poultry integrator within the Association's territory filing Chapter 11 bankruptcy during 2008. That bankruptcy has had a residual effect on Association grower borrowers due primarily to counterparty risk associated with the integrator. In 2009, that integrator emerged from bankruptcy and, to date, there has been no direct impact or adverse effect on the integrator's operations or production. At December 31, 2010, Association loans to growers of this integrator consisted of 323 loans representing \$76.4 million in volume, of which \$30.1 million have government guarantees. The Association will continue to monitor developments within this specific sector of its loan portfolio and properly adjust loan values and any allowance for loan losses to appropriate levels as deemed necessary. The Association anticipates these producer loans will be upgraded sometime during 2011 once approval from Farm Credit Administration is received.

Although not as highly publicized as in 2006, avian influenza, or bird flu, continues to be of utmost concern to the Association. Poultry growers practice strict bio security measures which are monitored by the State Department of Agriculture and Industries, as well as poultry integrators, to prevent the spread of any disease among the birds. Ongoing testing for disease is done and all poultry is grown in a controlled environment, much unlike the conditions overseas where birds and individuals come into close contact with each other. With present controls in place, the likelihood of bird flu spreading to humans and poultry flocks in North Alabama appears fairly remote.

Also during this time, the Association began to experience deterioration in the ethanol industry. Due to economic and political factors, this industry has been very volatile over the last several years. As of December 31, 2010, the Association held four ethanol participation loans with an unpaid balance of \$3,917,563. The Association will continue to monitor developments within this specific sector of its loan portfolio and properly adjust loan values and any allowance for loan losses to appropriate levels as deemed necessary.

Commodity prices remain volatile for production agricultural borrowers but remain high compared to the five-year average for corn and soybean growers. These higher prices are partially offset by higher input cost and lower government payments. Reported yields on soybeans have been disappointing, while cotton harvest yield reports have been positive. 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 has 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 nonagricultural 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 and move forward.

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.

At December 31, 2010, the Association held no loans extended under the Rural America Bond Program as approved by the Farm Credit Administration (FCA).

#### **Purchase and Sales of Loans:**

During 2010, 2009 and 2008, the Association was participating in loans with other lenders. As of December 31, 2010, 2009 and 2008, these participations totaled \$12,035,236, \$20,548,450 and \$24,469,024, or 2.9 percent, 5.0 percent and 5.9 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the District of \$6,633,316, \$13,819,990 and \$16,892,992, or 1.6 percent, 3.0 percent and 4.1 percent of loans, respectively. The Association had sold no participations as of December 31, 2010, 2009 and 2008, respectively.

#### **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, net. The following table illustrates the Association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 5,375,102	69.1%	\$ 5,838,950	97.0%	\$ 1,430,227	93.5%
90 days past due and still accruing interest	498,014	6.4%	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%	-	0.0%
Other property owned, net	1,900,967	24.5%	180,536	3.0%	99,076	6.5%
Total	\$ 7,774,083	100.0%	\$ 6,019,486	100.0%	\$ 1,529,303	100.0%

At December 31, 2010, 2009 and 2008, loans that were considered impaired were \$5,873,116, \$5,838,950 and \$1,430,227, representing 1.4 percent, 1.4 percent and 0.3 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. High-risk assets increased by \$1,754,597 or 29.1 percent primarily due to the increase in other property owned as a result of the Association acquiring collateral, through foreclosure proceedings, on seven new properties within the Association's lending territory and one through bankruptcy restructuring, as noted in the following paragraph. During 2010, the Association also sold two acquired properties. As of December 31, 2010, the Association held eight properties on its books. The increase in high-risk assets from 2008 to 2009 is derived from collateral and industry specific transactions. Loans that have collateral in Florida and loans with business operations in the bio-fuel industry primarily contributed to the increase of high-risk assets in 2009 compared to 2008. As economic conditions deteriorated in parts of the nation, collateral values were negatively impacted. Additionally, the receipt of scheduled principal and interest payments became questionable due to economic stress surrounding personal income and commodity prices.

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 with which its borrowers are associated. Because the Association's portfolio has approximately a 50.7 percent concentration in poultry, it mitigates the inherent risks in 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.

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 lender.

To help mitigate and diversify credit risk, the Association has employed practices including credit guarantees and loan participations. At December 31, 2010, the Association had \$72.7 million or 17.7 percent of its portfolio guaranteed with Farm Service Agency (FSA) or Small Business Administration (SBA).

#### **Allowance for Loan Losses:**

The following table provides relevant information regarding the allowance for loan losses as of, or for the year ended, December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Allowance for loan losses	\$ 1,490,624	\$ 2,180,567	\$ 509,245
Allowance for loan losses to total loans	0.4%	0.5%	0.1%
Allowance for loan losses to nonaccrual loans	27.7%	37.4%	35.6%
Allowance for loan losses to impaired loans	25.4%	37.4%	35.6%
Net charge-offs to average loans	0.3%	0.2%	0.0%

The allowance for loan losses is maintained based upon estimates that consider the general financial strength of the agricultural economy, loan portfolio composition, credit administration and the portfolio's prior loan-loss experience. Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$1,490,624, \$2,180,567 and \$509,245 at December 31, 2010, 2009 and 2008, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. 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, as mentioned above, having \$72.7 million or 17.7 percent of its portfolio guaranteed with FSA or SBA.

#### **Results of Operations:**

The Association's net income for the year ended December 31, 2010, was \$9,238,499 as compared to \$5,115,256 for the year ended December 31, 2009, reflecting an increase of \$4,123,243, or 80.6 percent. The increase in net income is the result of recording fewer provisions for loan losses on participation loans, increased patronage income from FCBT and increased other noninterest income during 2010 compared to the same reporting period of 2009. The Association's net income for the year ended December 31, 2008 was \$7,904,829. Net income decreased \$2,789,573, or 35.3 percent, in 2009 versus 2008 due to increased provisions for loan losses on three large participation loans. These losses were recognized as a result of deterioration in the ethanol industry for two loans and one due to a significant decrease in land values in Florida.

Net interest income for 2010, 2009 and 2008 was \$12,709,206, \$12,025,080 and \$11,634,236, reflecting increases of \$684,126, or 5.7 percent, for 2010 versus 2009 and \$390,844, or 3.4 percent, for 2009 versus 2008. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2010		2009		2008	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 407,103,648	\$ 24,497,451	\$ 413,130,490	\$ 25,943,414	\$ 402,686,506	\$ 28,265,294
Interest-bearing liabilities	347,294,095	11,788,246	357,676,787	13,918,334	350,580,636	16,631,058
Impact of capital	\$ 59,809,553		\$ 55,453,703		\$ 52,105,870	
Net interest income		\$ 12,709,205		\$ 12,025,080		\$ 11,634,236

	Average Yield	Average Yield	Average Yield
Yield on loans	6.0%	6.3%	7.0%
Cost of interest-bearing liabilities	3.4%	3.9%	4.7%
Interest rate spread	2.6%	2.4%	2.3%

	2010 vs. 2009			2009 vs. 2008		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ (378,468)	\$ (1,067,495)	\$ (1,445,963)	\$ 733,084	\$ (3,054,964)	\$ (2,321,880)
Interest expense	(404,022)	(1,726,066)	(2,130,088)	336,634	(3,049,358)	(2,712,724)
Net interest income	\$ 25,554	\$ 658,571	\$ 684,125	\$ 396,450	\$ (5,606)	\$ 390,844

Interest income decreased by \$1,445,963, or 5.6 percent, compared to 2009, primarily due to declines in yields on earning assets and a decrease in average loan volume for 2010. Interest expense for 2010 decreased by \$2,130,088, or 15.3 percent, compared to 2009 due to a decrease in average debt rates and average debt volume outstanding for the reporting period. The interest rate spread increased by 23 basis points to 2.6 percent in 2010 from 2.4 percent in 2009. The interest rate spread increased by 11 basis points to 2.4 percent in 2009 from 2.3 percent in 2008. The increase for the past two years is primarily a result of the Association responding to a continued volatile economic environment, unstable credit markets and more diligent loan pricing. In 2010, the Association implemented authoritative accounting guidance that requires loan origination fees and costs to be capitalized and amortized over the life of the loans as an adjustment to yield. The resulting adjustment to loan yield for 2010 was a decrease of \$4,209.

As noted above, the Association's 2010 improvement in net interest income is primarily due to higher average capital and higher net interest spreads on loan products. The Association's net interest income as a percentage of average earning assets was 3.1 percent, 2.9 percent and 2.9 percent on December 31, 2010, 2009 and 2008, respectively.

Noninterest income for 2010 increased by \$445,217, or 17.5 percent, compared to 2009, due primarily to increased patronage income received from the Bank, recognizing a gain on sale of acquired property and receiving an allocated distribution of excess Farm Credit System Insurance Corporation (FCSIC) fund balance which was not received during the same reporting period for 2009. The Bank paid 50 basis points on the Association's average note balance for 2010 versus 40 basis points in 2009. The \$445,217 increase in noninterest income also included \$348,045 in refund distributions of excess reserves from prior years from the FCSIC (or Insurance Fund). The distributions from the FCSIC included reserves it held in excess of its secure base amount in 2003 which had been previously allocated to its Allocated Insurance Reserves Accounts, and also included reserves in excess of its secure base amount in 2009 which were likewise allocated. The 2008 Farm Bill amended the Farm Credit Act and simplified the formula for payments from the Allocated Insurance Reserves Accounts to allow more immediate distribution of excess Insurance Fund balances to System banks. These increases were offset by a decrease in loan fees as a result of implementing authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs during 2010 for loans closed in 2010. This implementation resulted in the capitalization of \$582,466 in origination fees, which will be amortized over the life of the loans as an adjustment to yield in net interest income. Noninterest income for 2009 decreased by \$188,727, or 6.9 percent, compared to 2008. This is due primarily to the Association generating less fee income from loan closings and conversions when compared to the same period in 2008 as a result of decreased demand for loans in the Association's territory and tightened Association underwriting standards. This decrease in fee

income was offset by the increase in the direct note patronage income from the Bank due to the Bank paying 40 basis points on the Association's average note balance for 2009 versus 30 basis points in 2008.

Provisions for loan losses decreased by \$1,674,352, or 71.0 percent, compared to 2009. This decrease is due primarily to having fewer provisions recorded for large participation credits compared to those recorded in 2009.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. The decrease in operating expenses in 2010 compared to 2009 was primarily due to a decrease in salaries and employee benefits, purchased services and FCSIC insurance fund premiums offset by an increase in advertising expense. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs was implemented during 2010 for loans closed in 2010, resulting in the capitalization of \$751,021 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. Purchased services decreased primarily due to fewer legal and consulting fees incurred in connection with protecting the Association's interests in credit-related matters with borrowers with large credits and less legal expenses incurred for ACA conversion when compared to the amounts during the same period in 2009. Premiums to the Insurance Fund decreased \$405,073 as a result of lower premium rates in 2010. Premiums decreased from 20 basis points on adjusted insured debt obligations in 2009 to 5 basis points in 2010. For more details see Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report.

The increase in operating expenses for 2009 compared to 2008 was primarily due to an increase in salaries and employee benefit costs and FCSIC premium expense, offset by a decrease in purchased services expense. The increase in salaries and employee benefits is primarily due to normal annual increases in compensation rates, payout of retiree benefits that were not incurred in 2008 and a large increase in the required contributions to the Association's defined benefit retirement plan (DB Plan) as part of a District-wide initiative to reduce the amount of the unfunded accumulated postretirement benefit obligation. For more information on the defined benefit plan, see Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report. FCSIC premium expense increased due to higher premiums over the prior year. Premiums increased from 15 basis points on adjusted insured debt obligations in 2008 to 20 basis points in 2009. For more details see Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report. Purchased services decreased primarily due to fewer legal and consulting fees incurred in connection with protecting the Association's interests in credit-related matters with borrowers with large credits.

For the year ended December 31, 2010, the Association's return on average assets was 2.2 percent, as compared to 1.2 percent and 1.9 percent for the years ended December 31, 2009 and 2008, respectively. For the year ended December 31, 2010, the Association's return on average members' equity was 12.8 percent, as compared to 7.7 percent and 12.4 percent for the years ended December 31, 2009 and 2008, respectively. The increase in 2010 compared to 2009 is the direct result of the Association having more income in 2010 compared to 2009 due to recording fewer provisions for loan losses on large participation loans and a significant decrease in operating expenses, as mentioned above. Conversely, the primary decrease in 2009 compared to 2008 is the direct result of the Association having less net income in 2009 compared to the same period in 2008, as a result of increased provisions for loan losses relating to three large participation loans when compared to the same period in 2008.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank would have a similar effect on the operations of the Association.

### **Liquidity and Funding Sources:**

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 primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$344,869,304, \$349,706,522 and \$360,225,253 as of December 31, 2010, 2009 and 2008, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.9 percent, 3.5 percent and 4.4 percent at December 31, 2010, 2009 and 2008, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a financing agreement. The decrease in note payable to the Bank and related accrued interest payable since December 31, 2009, is due to decreased interest rates, loan payoffs and increased earnings used to reduce the direct loan balance at a faster rate than loan growth. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$64,923,564, \$60,445,586 and \$56,074,371 at December 31, 2010, 2009 and 2008, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2010, was \$411,134,153 as defined by the general financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2011. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year.

### **Capital Resources:**

The Association's capital position remains strong, with total members' equity of \$73,660,422, \$68,242,691 and \$65,263,557 at December 31, 2010, 2009 and 2008, respectively. 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 permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loan loss accounts. The Association's permanent capital ratio at December 31, 2010, 2009 and 2008 was 18.9 percent, 17.1 percent and 16.5 percent, respectively.

The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2010, 2009 and 2008 was 18.2 percent, 16.5 percent and 15.8 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent.

The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio at December 31, 2010, 2009 and 2008 was 18.2 percent, 16.5 percent and 15.8 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

In 2010, 2009 and 2008, the Association paid patronage distributions of \$2,109,101, \$2,744,603 and \$2,393,778, respectively. In December 2010, the Association accrued a \$3,630,000 patronage distribution to its stockholders based on its 2010 obligating patronage resolution that was declared by the board of directors in December 2009. The payment resolution was approved in January 2011, and the distribution will be paid in March 2011. See Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

### **Legal Proceedings:**

In 2009, the Association was party to lawsuits related to a large loan. In its capacity as the named lead lender and as a member of the Capital Markets of the South (CMS), the Alabama Ag Credit, ACA originated a loan to one borrower and sub-participated the loan (the Loan) to 13 other Farm Credit associations. Of the 13 associations that participated in the Loan originated by Alabama Ag Credit, ACA, four were members of CMS, and nine participants were non-CMS members. At the time the Loan was originated, the Association was a member of CMS. The original funded balance of the loan was \$68,500,000 and the Association participated in 5.56 percent of the Loan. During 2007 the loan was determined to be significantly undercollateralized, declared to be in default and transferred to nonaccrual status. Accordingly, collection actions were commenced by Alabama Ag Credit, ACA. Also during 2007, the Association, along with the other CMS member associations, repurchased on a pro rata basis the portions of the loan held by all other non-CMS participants. As part of the repurchase transactions, the Association and the four remaining CMS participants received a general release from the non-CMS participants for claims related to the loan, and agreed to indemnify the non-CMS participants from any liability arising from legal proceedings related to the loan.

The overall character of the lawsuits is of collection of the principal and interest from the borrower, control of the loan's remaining collateral, and an effort to recover property purchased with Alabama Ag Credit, ACA's (along with the remaining four CMS participants') loan proceeds. One of the lawsuits was filed against the borrower and other related individuals, as well as third parties, in the borrower's domicile state of Texas in U.S. Federal District Court. In the lawsuit, Alabama Ag Credit, ACA alleged that the credit was obtained fraudulently, resulting in significant charge-offs. The borrower and other related individuals responded with counterclaims seeking damages against Alabama Ag Credit, ACA (along with the remaining CMS participants) alleging various claims including breach of contract. On March 19, 2009, the court ruled in favor of Alabama Ag Credit, ACA (along with the remaining CMS participants) against all parties, jointly and severally, and awarded it \$41,549,236 in actual damages. On April 23, 2009, the Court trebled the judgment to \$124,647,710. The judgment was affirmed on appeal and is now final. Additionally, all counterclaims against the Alabama Ag Credit, ACA and remaining four participants have been dismissed, and there are no actions

remaining, or any that can be commenced, related to the judgment. During 2010 recoveries totaling \$616,754 were recorded related to this judgment.

All sales of real estate collateral and other properties were completed during 2010. Recoveries, if any, of amounts previously charged off will be recorded as necessary when amounts are received. The CMS joint venture is discussed further in Note 8 to the financial statements, "Capital Markets," included in this annual report.

#### **Relationship With the Bank:**

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 6 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 11 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank allocates District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

#### **Summary:**

Over the past 21 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

## Report of Independent Auditors

To the Board of Directors and Members of  
Alabama Farm Credit, ACA:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in members' equity, and of cash flows present fairly, in all material respects, the financial position of Alabama Farm Credit, ACA and subsidiaries (Association) at December 31, 2010, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

March 2, 2011

**ALABAMA FARM CREDIT, ACA**

**CONSOLIDATED BALANCE SHEET**

	December 31,		
	2010	2009	2008
<b><u>Assets</u></b>			
Cash	\$ 5,842	\$ 15,379	\$ 14,780
Loans	409,962,715	410,152,108	416,516,223
Less: allowance for loan losses	1,490,624	2,180,567	509,245
Net loans	408,472,091	407,971,541	416,006,978
Accrued interest receivable	5,246,279	5,565,631	6,220,087
Investment in and receivable from the Bank:			
Capital stock	6,956,070	7,170,220	6,969,525
Other	1,020	278,205	501,737
Other property owned, net	1,900,967	180,536	99,076
Premises and equipment	3,713,047	2,296,631	1,981,748
Other assets	220,687	186,632	194,400
Total assets	<b>\$ 426,516,003</b>	<b>\$ 423,664,775</b>	<b>\$ 431,988,331</b>
<b><u>Liabilities</u></b>			
Note payable to the Bank	\$ 344,869,304	\$ 349,706,522	\$ 360,225,253
Accrued interest payable	889,348	1,070,893	1,395,788
Drafts outstanding	1,272,716	174,040	363,257
Dividends payable	3,637,140	2,116,241	2,749,844
Other liabilities	2,187,073	2,354,388	1,990,632
Total liabilities	<b>352,855,581</b>	<b>355,422,084</b>	<b>366,724,774</b>
<b><u>Members' Equity</u></b>			
Capital stock and participation certificates	\$ 2,474,920	\$ 2,432,380	\$ 2,460,820
Unallocated retained earnings	71,141,624	65,533,125	62,528,869
Accumulated other comprehensive income	43,878	277,186	273,868
Total members' equity	<b>73,660,422</b>	<b>68,242,691</b>	<b>65,263,557</b>
Total liabilities and members' equity	<b>\$ 426,516,003</b>	<b>\$ 423,664,775</b>	<b>\$ 431,988,331</b>

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,		
	2010	2009	2008
<b><u>Interest Income</u></b>			
Loans	\$ 24,497,451	\$ 25,943,414	\$ 28,265,294
<b><u>Interest Expense</u></b>			
Note payable to the Bank	11,788,246	13,918,334	16,631,058
Net interest income	12,709,205	12,025,080	11,634,236
<b><u>Provision for Loan Losses</u></b>			
Provision for loan losses	684,071	2,358,423	107,745
Provision for other property owned, net	4,303	1,541	-
Net interest income after provision for losses	12,020,831	9,665,116	11,526,491
<b><u>Noninterest Income</u></b>			
Patronage income from the Bank	1,986,778	1,707,911	1,369,608
Loan fees	437,164	756,680	1,258,278
Financially related services income	30,351	33,230	39,370
Gain on other property owned, net	110,854	-	5,249
Gain on sale of premises and equipment, net	52,129	11,296	10,861
Other noninterest income	368,768	31,710	46,188
Total noninterest income	2,986,044	2,540,827	2,729,554
<b><u>Noninterest Expenses</u></b>			
Salaries and employee benefits	3,431,914	4,321,107	3,579,070
Directors' expense	196,022	219,249	228,699
Purchased services	609,805	747,512	890,013
Travel	324,363	348,454	328,768
Occupancy and equipment	262,317	212,743	191,458
Communications	87,281	69,858	66,906
Advertising	243,170	185,423	183,845
Public and member relations	117,755	109,393	107,715
Supervisory and exam expense	137,444	129,546	124,535
Insurance Fund premiums	197,260	602,333	518,855
Loss on other property owned, net	-	1,572	-
Other noninterest expense	161,045	143,497	131,352
Total noninterest expenses	5,768,376	7,090,687	6,351,216
Net income	\$ 9,238,499	\$ 5,115,256	\$ 7,904,829

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2007	\$ 2,375,470	\$ 57,374,400	\$ 379,594	\$ 60,129,464
Adjustment to beginning balance due to the pension accounting change	-	(5,360)	-	(5,360)
Balance at January 1, 2008	2,375,470	57,369,040	379,594	60,124,104
Comprehensive income				
Net income	-	7,904,829	-	7,904,829
Change in postretirement benefit plans	-	-	(105,726)	(105,726)
Total comprehensive income	-	7,904,829	(105,726)	7,799,103
Capital stock/participation certificates issued	400,580	-	-	400,580
Capital stock/participation certificates and allocated retained earnings retired	(315,230)	-	-	(315,230)
Patronage declared	-	(2,745,000)	-	(2,745,000)
Balance at December 31, 2008	2,460,820	62,528,869	273,868	65,263,557
Comprehensive income				
Net income	-	5,115,256	-	5,115,256
Change in postretirement benefit plans	-	-	3,318	3,318
Total comprehensive income	-	5,115,256	3,318	5,118,574
Capital stock/participation certificates issued	218,165	-	-	218,165
Capital stock/participation certificates and allocated retained earnings retired	(246,605)	-	-	(246,605)
Patronage declared	-	(2,111,000)	-	(2,111,000)
Balance at December 31, 2009	2,432,380	65,533,125	277,186	68,242,691
Comprehensive income				
Net income	-	9,238,499	-	9,238,499
Change in postretirement benefit plans	-	-	(233,308)	(233,308)
Total comprehensive income	-	9,238,499	(233,308)	9,005,191
Capital stock/participation certificates issued	288,530	-	-	288,530
Capital stock/participation certificates and allocated retained earnings retired	(245,990)	-	-	(245,990)
Patronage declared	-	(3,630,000)	-	(3,630,000)
<b>Balance at December 31, 2010</b>	<b>\$ 2,474,920</b>	<b>\$ 71,141,624</b>	<b>\$ 43,878</b>	<b>\$ 73,660,422</b>

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

**ALABAMA FARM CREDIT, ACA**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2010	2009	2008
<b>Cash flows from operating activities:</b>			
Net income	\$ 9,238,499	\$ 5,115,256	\$ 7,904,829
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	684,071	2,358,422	107,745
Provision for acquired property	4,303	1,541	-
Gain on other property owned, net	(148,117)	-	-
Depreciation	214,955	192,808	180,233
Gain on sale of premises and equipment, net	(52,129)	(11,296)	(10,861)
Decrease in accrued interest receivable	319,352	654,456	832
Decrease (increase) in other receivables from the Bank	277,185	223,532	(501,737)
(Increase) decrease in other assets	(34,055)	7,768	(35,820)
Decrease in accrued interest payable	(181,545)	(324,895)	(130,915)
(Decrease) increase in other liabilities	(400,623)	367,074	98,203
Net cash provided by operating activities	9,921,896	8,584,666	7,612,509
<b>Cash flows from investing activities:</b>			
(Increase) decrease in loans, net	(3,540,025)	5,486,335	(28,569,492)
Cash recoveries of loans previously charged off	620,254	107,679	-
Proceeds from redemption (purchase) of investment in the Bank	214,150	(200,695)	(554,495)
Purchases of premises and equipment	(1,684,828)	(534,191)	(241,476)
Proceeds from sales of premises and equipment	105,586	37,796	62,288
Proceeds from sales of other property owned	158,533	-	11,200
Net cash (used in) provided by investing activities	(4,126,330)	4,896,924	(29,291,975)

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

**ALABAMA FARM CREDIT, ACA**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2010	2009	2008
<b>Cash flows from financing activities:</b>			
Net (repayment of) draws on note payable to the Bank	(4,837,218)	(10,518,731)	23,198,262
Increase (decrease) in drafts outstanding	1,098,676	(189,217)	(335,426)
Issuance of capital stock and participation certificates	288,530	218,165	400,580
Retirement of capital stock and participation certificates	(245,990)	(246,605)	(315,230)
Patronage distributions paid	(2,109,101)	(2,744,603)	(2,393,778)
Net cash (used in) provided by financing activities	(5,805,103)	(13,480,991)	20,554,408
Net (decrease) increase in cash	(9,537)	599	(1,125,058)
Cash at the beginning of the year	15,379	14,780	1,139,838
Cash at the end of the year	\$ 5,842	\$ 15,379	\$ 14,780
 <b>Supplemental schedule of noncash investing and financing activities:</b>			
Financed sales of other property owned	\$ 143,252	\$ -	\$ -
Loans transferred to other property owned	1,878,403	83,001	99,076
Loans charged off	1,994,268	794,779	-
Patronage distributions declared	3,630,000	2,111,000	2,745,000
 <b>Supplemental cash information:</b>			
Cash paid during the year for:			
Interest	\$ 11,969,791	\$ 14,243,229	\$ 16,761,973

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

**ALABAMA FARM CREDIT, ACA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 — ORGANIZATION AND OPERATIONS:**

- A. Organization: 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 (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2010, the System consisted of four Farm Credit banks and their affiliated associations, one Agricultural Credit Bank and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations, including the Association, are collectively referred to as the Tenth Farm Credit District (District). The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2010, the District consisted of the Bank, one Federal Land Credit Association (FLCA) and 16 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System associations to ensure their compliance with the Farm Credit Act, FCA regulations and safe and sound banking practices.

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2.0 percent level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

- B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank.

The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investments in the Association. Upon request, stockholders of the Association will be provided with the Farm Credit Bank of Texas and District Association's Annual Report to Stockholders, which includes the combined financial statements of the Bank 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 Bank 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 Insurance Fund.

The lending and financial services offered by the Bank are described in Note 1, "Organization and Operations," of the District's annual report to stockholders.

## **NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of Alabama Farm Credit, PCA and FLBA of North Alabama, FLCA. All significant intercompany transactions have been eliminated in consolidation.

- A. Recently Issued or Adopted Accounting Pronouncements: In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit 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, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of this Standard will not have an impact on the Association's financial condition or results of operations, but will result in additional disclosures for annual reporting periods ending after December 15, 2011.

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 are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard had no impact on the Association's financial condition and results of operations but resulted in additional disclosures.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. This statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date, in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. System institutions reviewed their loan

participation agreements to ensure that participations would meet the requirements for sales treatment and not be required to be consolidated. Because the Association had no sold participations, the impact of the adoption on January 1, 2010 had no impact on the Association's financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. System institutions reviewed transactions that are included in the scope of this guidance and determined the impact of adoption on January 1, 2010; however, the Association does not have any variable interest or controlling interest in a variable entity, and thus the adoption of the guidance has no impact to the Association.

- B. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.
- C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. Prior to 2010, this guidance was not implemented due to its immaterial effect on the Association's financial position or results of operation for any year presented. The guidance was implemented in 2010 for loans closed in 2010, resulting in the capitalization of \$582,466 in origination fees and \$751,021 in origination costs, primarily salaries and benefits related to the origination of loans, offset by \$4,209 of net amortization. The net adjustment to yield on loans for 2010 was an increase of \$164,346.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years).

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified as "doubtful" or "loss." If previously unrecognized interest income exists upon transfer of a nonaccrual loan to accrual status, interest income will be recognized as cash payments are received.

Loans are charged off at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The Bank and related associations use a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a

separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan, assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable 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, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

- E. **Capital Stock Investment in the Bank:** The Association's investment in the Bank is in the form of Class A voting capital stock. This investment is adjusted periodically based on the Association's proportional utilization of the Bank compared to other District associations. The Bank requires a minimum stock investment of 2.0 percent of the Association's average borrowing from the Bank. This investment is carried at cost in the accompanying consolidated balance sheet.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5 percent of the average outstanding balance of borrowings from the Bank.

- F. **Other Property Owned, Net:** Other property owned, net, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure is recorded at the lower of the property's fair value less estimated selling costs upon acquisition or the related loan's carrying amount. These properties are included in other assets in the Statement of Condition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the Statement of Income.
- G. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.
- H. **Advance Conditional Payments:** The Association is authorized under the Act to accept advance payments from borrowers (Funds Held). To the extent that the borrower's access to such funds is restricted, the funds held payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Funds Held payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors. At December 31, 2010, the Association had no unrestricted Funds Held.
- I. **Employee Benefit Plans:** Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contributions plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the Association sponsors a nonqualified defined contribution 401(k) plan. The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB Plan.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5.0 percent of salaries for the year ended December 31, 2010, made on their behalf into various investment alternatives.

The structure of the District's DB Plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan which requires the associations to match 100 percent of employee contributions up to 3.0 percent of base salary and to match 50.0 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of base salary. Association 401(k) plan costs are expensed as incurred.

In addition to the DB Plan, the DC Plan, and the Farm Credit Benefits Alliance 401(k) plans above, the Association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan. No contributions have been made to the plan since inception.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Employees hired prior to January 1, 2004 and who are at least 55 years of age (or at least age 50 with 30 years of service) may retire and have their medical premiums paid on a percentage of cost sharing basis predicated on length of employment service. Employees hired before this date who have reached the age requirement and have 25 years of service will receive 100 percent of their medical premiums paid. Employees hired after January 1, 2004 will be eligible for access only to retiree medical benefits for themselves, but will be responsible for 100 percent of the premiums.

For further information on the Association's employee benefit plans, see Note 10 to the consolidated financial statements, "Employee Benefit Plans," included in this annual report.

- J. **Income Taxes:** The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Deferred taxes are provided on the Association's taxable income on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.
- K. **Patronage Refunds From the Farm Credit Bank of Texas:** The Association records patronage refunds from the Bank on an accrual basis.
- L. **Fair Value Measurement:** The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1. The Association did not hold any Level 1 assets or liabilities as of December 31, 2010.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current, or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2. The Association did not hold any Level 2 assets or liabilities as of December 31, 2010.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity’s own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value, are included in Level 3.

The fair value disclosures are presented in Note 12, “Fair Value Measurements.”

M. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management’s assessment of the customer’s creditworthiness.

**NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:**

A summary of loans as of December 31 follows:

Loan Type	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 400,066,360	97.6%	\$ 401,802,429	98.0%	\$ 407,339,243	97.8%
Rural residential real estate	5,306,828	1.3%	5,330,746	1.3%	5,768,709	1.4%
Production and intermediate term	2,977,675	0.7%	1,571,319	0.4%	1,833,205	0.4%
Agribusiness:						
Processing and marketing	1,597,382	0.4%	-	0.0%	-	0.0%
Farm-related business	14,470	0.0%	-	0.0%	-	0.0%
Energy	-	0.0%	1,447,614	0.3%	1,575,066	0.4%
Total	<u>\$ 409,962,715</u>	<u>100.0%</u>	<u>\$ 410,152,108</u>	<u>100.0%</u>	<u>\$ 416,516,223</u>	<u>100.0%</u>

At December 31, 2010, the Association held no loans under the Rural America Bond Program approved by the FCA.

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold as of December 31, 2010:

	Participations Purchased	Participations Sold
Real estate mortgage	\$ 9,334,745	\$ -
Production and intermediate term	1,088,639	-
Agribusiness	1,611,852	-
Total	<u>\$ 12,035,236</u>	<u>\$ -</u>

Geographic:

County	2010	2009	2008
De Kalb	23.7%	24.1%	23.9%
Marshall	11.5%	11.5%	11.4%
Lawrence	6.2%	6.0%	6.0%
Jackson	5.8%	5.2%	5.2%
Blount	4.6%	4.8%	4.8%
Etowah	4.4%	4.5%	4.5%
Cherokee	4.3%	4.0%	3.4%
Cullman	4.1%	3.8%	3.9%
Morgan	4.0%	4.1%	3.9%
Limestone	3.9%	3.4%	3.3%
Madison	3.1%	3.1%	3.2%
Franklin	2.8%	2.4%	2.5%
Colbert	2.7%	2.9%	2.8%
Lauderdale	2.2%	2.1%	2.1%
Marion	2.1%	2.1%	2.4%
Talladega	1.5%	1.5%	1.6%
Saint Clair	1.4%	0.8%	0.7%
Clay	1.4%	1.3%	1.2%
Shelby	1.0%	1.0%	1.0%
Walker	1.0%	1.2%	1.3%
Randolph	1.0%	0.9%	0.8%
Cleburne	0.9%	0.8%	0.8%
Other States	3.0%	4.9%	5.6%
Other	3.4%	3.6%	3.7%
<b>Totals</b>	<u><b>100.0%</b></u>	<u><b>100.0%</b></u>	<u><b>100.0%</b></u>

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

Portfolio Composition:

Operation/Commodity	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Poultry and eggs	\$ 208,003,752	50.7%	\$ 203,511,687	49.6%	\$ 203,410,199	48.8%
Livestock, except dairy and poultry	80,326,915	19.6%	79,577,075	19.4%	80,883,454	19.4%
Timber	45,790,164	11.2%	46,143,733	11.3%	48,640,736	11.7%
Field crops except cash grains	40,465,426	9.9%	41,676,680	10.2%	44,923,161	10.8%
Cash grains	15,355,614	3.7%	13,610,509	3.3%	9,897,083	2.4%
Rural home loans	5,340,245	1.3%	5,409,275	1.3%	5,882,441	1.4%
Chemical and allied products	3,917,563	0.9%	6,475,207	1.6%	7,564,667	1.8%
General farms, primarily crops	3,711,512	0.9%	3,485,216	0.8%	3,653,411	0.9%
Animal specialties	1,903,296	0.5%	1,853,489	0.5%	1,495,400	0.4%
Wholesale trade - nondurable goods	1,224,750	0.3%	1,586,588	0.4%	1,137,840	0.3%
Food and kindred products	1,159,447	0.3%	1,649,319	0.4%	1,833,205	0.4%
Fruit and tree nuts	943,940	0.2%	1,820,648	0.4%	3,212,880	0.8%
Dairy farms	696,640	0.2%	910,031	0.2%	1,393,892	0.3%
Other	1,123,451	0.3%	2,442,651	0.6%	2,587,854	0.6%
Total	\$ 409,962,715	100.0%	\$ 410,152,108	100.0%	\$ 416,516,223	100.0%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan-to-value ratios in excess of the regulatory maximum.

One poultry integrator within the Association's territory filed Chapter 11 bankruptcy restructuring during 2008. As of the date of this report, that integrator has since emerged from bankruptcy. To date, there has been no direct impact or adverse effect on the integrator's operations or production. At December 31, 2010, Association loans to growers of this integrator consisted of 323 loans representing \$76.4 million in volume, of which \$30.1 million have government guarantees. The Association will continue to monitor developments within this specific sector of its loan portfolio and properly adjust loan values and any allowance for loan losses to appropriate levels as deemed needed.

Asset Quality:

	2010	2009	2008
Acceptable	83.0%	84.9%	95.0%
Special mention	13.7%	11.6%	3.8%
Substandard	3.3%	3.5%	1.2%
Doubtful	0.0%	0.0%	0.0%
Loss	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

The Association's credit quality began to deteriorate slightly in late 2008, due to the impact of a poultry integrator within the Association's territory filing Chapter 11 bankruptcy in late 2008 as mentioned above. This bankruptcy has had a residual effect on Association borrowers due primarily to counterparty risk associated with the integrator. Due to this inherent risk, all grower loans to this integrator were downgraded in credit classification. The Association anticipates the producer loans will be upgraded sometime in 2011 as the integrator's performance stabilizes. Also in late 2008, the Association started to see problems within the ethanol industry as a whole and responded accordingly. At December 31, 2010, the Association held four ethanol participation loans with an unpaid balance of \$3,917,563. Total allowance for loan losses for these ethanol participations was \$400,000. The Association will continue to monitor developments within these specific sectors of its loan portfolio and properly adjust loan values and any allowance for loan losses to appropriate levels as deemed needed.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following presents information relating to impaired loans as of December 31:

	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Nonaccrual loans						
Current as to principal and interest	\$ 1,956,488	33.3%	\$ 3,134,459	53.7%	\$ 869,149	60.8%
Past due	3,418,614	58.2%	2,704,491	46.3%	561,078	39.2%
Total nonaccrual loans	<u>5,375,102</u>	<u>91.5%</u>	<u>5,838,950</u>	<u>100.0%</u>	<u>1,430,227</u>	<u>100.0%</u>
Accrual loans						
90 days or more past due	498,014	8.5%	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%	-	0.0%
Total impaired accrual loans	<u>498,014</u>	<u>8.5%</u>	<u>-</u>	<u>0.0%</u>	<u>-</u>	<u>0.0%</u>
Total impaired loans	<u>\$ 5,873,116</u>	<u>100.0%</u>	<u>\$ 5,838,950</u>	<u>100.0%</u>	<u>\$ 1,430,227</u>	<u>100.0%</u>

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2010.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2, "Summary of Significant Accounting Policies." The following table presents interest income recognized on impaired loans.

	2010	2009	2008
Interest income recognized on nonaccrual loans	\$ 83,754	\$ 27,642	\$ 11,101
Interest income recognized on impaired accrual loans	23,054	15,262	9,491
Interest income recognized on impaired loans	<u>\$ 106,808</u>	<u>\$ 42,904</u>	<u>\$ 20,592</u>

A summary of the allowance for loan losses as of December 31 follows:

	Year Ended December 31,		
	2010	2009	2008
Balance at beginning of year	\$ 2,180,567	\$ 509,245	\$ 401,500
Charge-offs:			
Production agriculture:			
Real estate mortgage	\$ (1,994,268)	\$ (794,780)	\$ -
Total charge-offs	<u>\$ (1,994,268)</u>	<u>\$ (794,780)</u>	<u>\$ -</u>
Recoveries:			
Production agriculture:			
Real estate mortgage	\$ 620,254	\$ 107,679	\$ -
Total recoveries	<u>\$ 620,254</u>	<u>\$ 107,679</u>	<u>\$ -</u>
Net charge-offs	\$ (1,374,014)	\$ (687,101)	\$ -
Loan loss provision for loan losses	\$ 684,071	\$ 2,358,423	\$ 107,745
Balance at end of year	<u>\$ 1,490,624</u>	<u>\$ 2,180,567</u>	<u>\$ 509,245</u>

Ratio of net charge-offs during the period to average loans outstanding during the period	0.3%	0.2%	0.0%
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The following table presents information concerning impaired loans as of December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Impaired loans with related allowance	\$ 1,203,874	\$ 4,938,370	\$ 461,226
Impaired loans with no related allowance	4,669,242	900,580	969,001
Total impaired loans	<u>\$ 5,873,116</u>	<u>\$ 5,838,950</u>	<u>\$ 1,430,227</u>
Allowance on impaired loans	<u>\$ 142,000</u>	<u>\$ 1,612,170</u>	<u>\$ 279,022</u>
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Average impaired loans	<u>\$ 6,138,475</u>	<u>\$ 3,377,899</u>	<u>\$ 2,149,217</u>

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Interest income which would have been recognized under the original terms	\$ 291,072	\$ 687,651	\$ 728,630
Less: interest income recognized	(106,808)	(42,904)	(20,592)
Foregone interest income	<u>\$ 184,264</u>	<u>\$ 644,747</u>	<u>\$ 708,038</u>

#### NOTE 4 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 746,868	\$ 424,888	\$ 424,888
Building and improvements	2,713,912	1,293,328	1,293,328
Furniture and equipment	610,705	451,703	448,575
Computer equipment and software	158,113	141,753	114,383
Automobiles	484,832	505,149	480,506
Construction in progress	-	384,702	13,800
	<u>4,714,430</u>	<u>3,201,523</u>	<u>2,775,480</u>
Accumulated depreciation	(1,001,383)	(904,892)	(793,732)
Total	<u>\$ 3,713,047</u>	<u>\$ 2,296,631</u>	<u>\$ 1,981,748</u>

The Association leases office space in Moulton and rented office space in Talladega through August 2010 and a full year in 2009 and 2008. Lease expense was \$7,820, \$11,715 and \$15,530 for 2010, 2009 and 2008, respectively. There are no minimum annual lease payments for the next five years.

#### NOTE 5 – OTHER PROPERTY OWNED, NET:

Net gain (loss) on other property owned, net consists of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Gain on sale, net	\$ 148,117	\$ -	\$ -
Carrying value adjustments	-	-	-
Operating income (expense), net	(37,263)	(1,572)	5,249
Net gain (loss) on other property owned	<u>\$ 110,854</u>	<u>\$ (1,572)</u>	<u>\$ 5,249</u>

#### NOTE 6 — NOTE PAYABLE TO THE BANK:

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's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets, and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the Association has outstanding to its borrowers.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2010, 2009 and 2008, was \$344,869,304 at 2.9 percent, \$349,706,522 at 3.5 percent and \$360,225,253 at 4.4 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2010, 2009 and 2008, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2010, was \$411,134,153, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2010, 2009 and 2008, the Association was not subject to remedies associated with the covenants in the financing agreement.

#### **NOTE 7 — MEMBERS' EQUITY:**

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

Protection of certain borrower equity is provided under the Act that requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. If an association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

In accordance with the Act and Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class A capital stock (for farm loans), or participation certificates (for rural home and farm-related business loans) was equal to 2.0 percent of the loan amount, prior to 2004. In March 2004, on new loans only, the Association changed its stock investment requirement to the lesser of 2.0 percent of the loan amount, or \$1,000. In November 2005, the board of directors approved a stock reduction to equalize the stock of all borrowers to 2.0 percent or \$1,000, whichever is less.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Association may increase the percentage of stock requirement for each borrower up to a maximum of 10.0 percent of the loan amount.

Each owner of Class A capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class A to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the Association's board of directors. At December 31, 2010, 2009 and 2008, the Association had no Class C stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A capital stock and participation certificates. In the event of liquidation of the Association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association's obligations to external parties and to the Bank would be distributed to the Association's stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2010, 2009 and 2008, respectively:

<b>Date Declared</b>	<b>Date Paid</b>	<b>Patronage</b>
<b>January 2010</b>	<b>March 2010</b>	<b>\$ 2,109,101</b>
January 2009	March 2009	2,393,778
January 2008	April 2008	2,181,215

The Association accrued a \$3,630,000 patronage payment to its stockholders based on its 2010 obligating patronage resolution that was declared by the board of directors in December 2009. This distribution will be paid in March 2011.

The FCA's capital adequacy regulations require the Association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. As of December 31, 2010, the Association is not prohibited from retiring stock or distributing earnings; furthermore, neither the board nor senior management knows of any such prohibitions that may apply during the subsequent fiscal year. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2010, were 18.9 percent, 18.2 percent and 18.2 percent, respectively.

FCA regulations require that the Association's board of directors establish and maintain a formal written capital adequacy plan as a part of the required annual financial plan. The plan includes the capital targets that are necessary to achieve the Association's capital adequacy goals as well as the minimum permanent capital standards and surplus standards. This capital adequacy plan also addresses monitoring any projected dividends, patronage distribution, equity retirements, or other action that may affect the institution's permanent capital. The plan sets forth the circumstances in which retirements or revolvments of stock or equities may occur. In addition to factors that must be considered in meeting the minimum standards, the board of directors will also consider at least the following factors in developing the capital adequacy plan: capability of management and the board of directors; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for loan losses to absorb potential loss within the loan portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risks, potential obligations under joint and several liability, contingent and off-balance sheet liabilities or other conditions warranting additional capital. At least quarterly, the Association's goals and objectives are reviewed with the board.

As described in Note 2, "Summary of Significant Accounting Policies," included in this annual report, the Bank may increase the percentage of stock held by an association from 2.0 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5.0 percent of the average outstanding balance of borrowings from the Bank. Currently, the required stock investment in the Bank is 2.0 percent of the average borrowings from the previous 12 months. This stock investment reduces the amount of Association capital available for inclusion in the Association's capital adequacy calculations.

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

At December 31, the Association had the following shares of Class A capital stock, Class B stock and participation certificates outstanding at a par value of \$5 per share:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Class A stock	<b>477,325</b>	469,183	473,752
Participation certificates	<b>17,659</b>	17,293	18,412
Total	<b>494,984</b>	486,476	492,164

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Nonpension post-retirement benefits	<b>\$ 43,878</b>	\$ 277,186	\$ 273,868

## NOTE 8 — 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 December 31, 2010, 2009 and 2008, the Association had CMS related loan volume outstanding in the amount of \$10,693,555, \$17,651,719 and \$21,123,685, respectively. In addition, the Association had unfunded commitments on CMS loans of \$1,027,558, \$3,837,341 and \$8,258,695 as of December 31, 2010, 2009 and 2008, respectively.

## NOTE 9 — INCOME TAXES:

The provision for (benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Federal tax at statutory rate	\$ 1,295,699	\$ -	\$ -
State tax, net	600,503	-	-
Effect of nontaxable FLCA subsidiary	(1,916,845)	-	-
Change in valuation allowance	20,643	-	-
Provision for (benefit from) income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Deferred tax assets and liabilities in accordance with accounting guidance, "Accounting for Income Taxes," are comprised of the following at December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 446	\$ -	\$ -
Loss carryforwards	17,354	-	-
Deferred origination fees	2,843	-	-
Gross deferred tax assets	<u>20,643</u>	<u>-</u>	<u>-</u>
Deferred tax asset valuation allowance	<u>(20,643)</u>	<u>-</u>	<u>-</u>
<u>Deferred Tax Liabilities</u>			
Gross deferred tax liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2010, the Association has a net operating loss carryforward of \$100,574 available to offset against future taxable income that will expire in 2030.

The Association recorded a valuation allowance of \$20,643 during 2010. The Association will continue to evaluate the reliability of the deferred tax assets and adjust the valuation allowance accordingly.

Upon adoption of FASB guidance on accounting for uncertainty in income taxes on January 1, 2007, the Association did not need to recognize a tax liability for any uncertain tax positions and at December 31, 2010, did not recognize a tax liability or any uncertain tax position.

## NOTE 10 — EMPLOYEE BENEFIT PLANS:

**Employee Retirement Plans:** As discussed in section I of Note 2 to the consolidated financial statements, “Summary of Significant Accounting Policies,” in this annual report, employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contributions plan (DC Plan). The Association recognized pension cost for the DB Plan of \$727,582, \$966,977 and \$669,572 for the years ended December 31, 2010, 2009 and 2008, respectively. For the DC Plan, the Association recognized pension cost of \$81,216, \$71,304 and \$57,688 for the years ended December 31, 2010, 2009 and 2008, respectively.

Employees of the Association are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. The Association’s contributions to the 401(k) plan were \$103,587, \$87,652 and \$86,314 for the years ended December 31, 2010, 2009 and 2008, respectively.

The Association also sponsors a nonqualified defined contribution 401(k) plan. There have been no contributions to the plan to date.

**Other Postretirement Benefits:** In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Employees hired prior to January 1, 2004 and who are at least 55 years of age (or at least age 50 with 30 years of service) may retire and have their medical premiums paid on a percentage of cost sharing basis predicated on length of employment service. Employees hired before this date, that have reached the age requirement and have 25 years of service will receive 100 percent of their medical premiums paid. Employees hired after January 1, 2004, will be eligible for access only to retiree medical benefits for themselves, but will be responsible for 100 percent of the premiums.

In September 2006, the FASB issued guidance, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of this guidance were adopted at December 31, 2007. The guidance also required that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, the System used a September 30 measurement date for pension and other postretirement benefit plans. The guidance provided two approaches for an employer to transition to a fiscal year-end measurement date. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the Association decreased retained earnings \$5,360, net of taxes and increased the pension and other postretirement benefit liabilities by \$5,360.

The following table reflects the benefit obligation, cost and actuarial assumptions for the Association’s other postretirement benefits:

## Retiree Welfare Benefit Plans

<b>Disclosure Information Related to Retirement Benefits</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Change in Accumulated Postretirement Benefit Obligation</b>			
Accumulated postretirement benefit obligation, beginning of year	\$ 1,043,701	\$ 1,033,043	\$ 917,073
Service cost	21,368	20,387	22,923
Interest cost	62,706	64,491	73,768
Plan participants' contributions	9,056	7,230	1,080
Actuarial loss (gain)	177,440	(57,831)	35,835
Benefits paid	<u>(34,136)</u>	<u>(23,619)</u>	<u>(17,636)</u>
Accumulated postretirement benefit obligation, end of year	\$ 1,280,135	\$ 1,043,701	\$ 1,033,043
<b>Change in Plan Assets</b>			
Company contributions	25,080	16,389	16,556
Plan participants' contributions	9,056	7,230	1,080
Benefits paid	<u>(34,136)</u>	<u>(23,619)</u>	<u>(17,636)</u>
Funded status of the plan	\$ (1,280,135)	\$ (1,043,701)	\$ (1,033,043)
<b>Amounts Recognized in Statement of Financial Position</b>			
Current liabilities	\$ (30,594)	\$ (21,864)	\$ (19,611)
Noncurrent liabilities	\$ (1,249,541)	\$ (1,021,837)	\$ (1,013,432)
Total	<u>(1,280,135)</u>	<u>(1,043,701)</u>	<u>(1,033,043)</u>
<b>Amounts Recognized in Accumulated Other Comprehensive Income</b>			
Net actuarial loss	237,185	59,745	118,930
Prior service credit	<u>(281,063)</u>	<u>(336,931)</u>	<u>(392,799)</u>
Total	<u>(43,878)</u>	<u>(277,186)</u>	<u>(273,869)</u>
<b>Additional Information</b>			
Increase in minimum liability included in other comprehensive income	\$ 233,308	\$ (3,318)	\$ 105,726
<b>Weighted-Average Assumptions Used to Determine Obligations at Year-end</b>			
Measurement date	12/31/2010	12/31/2009	12/31/2008
Discount rate	5.70%	6.05%	6.30%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.5%/6.5%	8.0%/7.0%	8.5%/6.5%
Health care cost trend rate assumed for next year - Rx	10.00%	10.50%	12.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%

<b>Total Cost</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Service cost	\$ 21,368	\$ 20,387	\$ 18,338
Interest cost	62,706	64,491	59,014
Amortization of:			
Unrecognized prior service cost	(55,868)	(55,868)	(56,580)
Unrecognized net loss (gain)	-	1,355	668
Net postretirement benefit cost	28,206	30,365	21,440
Adjustment to retained earnings for 2008 due to change in measurement date	N/A	N/A	\$ 5,360
Accounting for settlements/curtailments/special termination benefits	\$ -	\$ -	\$ -
<b>Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income</b>			
Net actuarial loss (gain)	\$ 177,440	\$ (57,831)	\$ 35,835
Amortization of net actuarial loss (gain)	-	(1,355)	(835)
Prior service cost (credit)	55,868	55,868	-
Amortization of prior service cost	-	-	70,726
Total recognized in other comprehensive income	\$ 233,308	\$ (3,318)	\$ 105,726
<b>AOCI Amounts Expected to be Amortized into Expense in 2011</b>			
Unrecognized prior service cost	(54,544)	(55,868)	(55,868)
Unrecognized net loss (gain)	9,090	-	1,355
Total	\$ (45,454)	\$ (55,868)	\$ (54,513)
<b>Weighted-Average Assumptions Used to Determine Benefit Cost</b>			
Measurement date	12/31/2009	12/31/2008	9/30/2007
Discount rate	6.05%	6.30%	6.50%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	8.0%/7.0%	8.50%/6.50%	9.0%/6.75%
Health care cost trend rate assumed for next year - Rx	10.50%	11.00%	13.00%
Ultimate health care cost trend rate	5.00%	5.00%	4.75%
Year that the rate reaches the ultimate trend rate	2017	2015	2016

### Expected Future Cash Flows

#### Expected Benefit Payments (net of employee contributions)

Fiscal 2011	\$ 30,594
Fiscal 2012	40,167
Fiscal 2013	51,267
Fiscal 2014	57,800
Fiscal 2015	61,348
Fiscal 2016–2020	390,021

#### Expected Contributions

Fiscal 2011	\$ 30,594
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## NOTE 11 — RELATED PARTY TRANSACTIONS:

Directors of the Association, except for any director-elected directors, are required to be borrowers/stockholders of the Association. Also, in the ordinary course of business, the Association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the Association amounted to \$6,317,422, \$4,026,506 and \$4,488,794 at December 31, 2010, 2009 and 2008, respectively. During 2010, \$2,171,147 of new loans were made, and repayments totaled \$1,415,212. In the opinion of management, no such loans outstanding at December 31, 2010, 2009 and 2008 involved more than a normal risk of collectibility.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$406,174, \$823,784 and \$841,221 in 2010, 2009 and 2008, respectively. The primary reason for the decline in the expense was due to a decrease in Farm Credit System Insurance Corporation (FCSIC) insurance premium base from 20 basis points in 2009 to 5 basis points for 2010.

The Association received patronage payments from the Bank totaling \$1,986,778, \$1,707,911 and \$1,369,608 during 2010, 2009 and 2008, respectively.

## NOTE 12 — FAIR VALUE MEASUREMENTS:

Accounting guidance 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 consolidated financial statements, "Summary of Significant Accounting Policies," in this annual report, for additional information.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2010 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 6,412,615	\$ 6,412,615
Other property owned	-	-	1,900,967	1,900,967

### Valuation Techniques

As more fully discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," in this annual report, accounting 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 by the Bank and associations for assets and liabilities:

#### *Loans*

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are 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 process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

## NOTE 13 — COMMITMENTS AND CONTINGENCIES:

In addition to those commitments and contingencies discussed in Note 2 to the consolidated financial statements, “Summary of Significant Accounting Policies,” in this annual report, the Association is involved in various legal proceedings in the ordinary 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.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2010, \$10,189,554 of unfunded credit commitments and no commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management’s credit evaluation of the borrower.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. At December 31, 2010, the Association had approximately \$154,549 in outstanding standby letters of credit, issued primarily in conjunction with participation loans. The fair value of these obligations at December 31, 2010 is based on the fees for the unexpired period remaining, which are negligible.

## NOTE 14 — DISCLOSURE ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following table presents the carrying amounts and estimated fair values of the Association’s financial instruments at December 31, 2010, 2009 and 2008. Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, discount rates, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association’s financial instruments as of December 31 follow:

	2010		2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash	\$ 5,842	\$ 5,842	\$ 15,379	\$ 15,379	\$ 14,780	\$ 14,780
Loans, net	408,472,091	412,155,530	407,971,541	410,781,806	416,006,978	436,982,050
Financial liabilities						
Note payable to the Bank	344,869,304	347,985,300	349,706,522	351,136,822	360,225,253	378,387,810

A description of the methods and assumptions used to estimate the fair value of each class of the Association’s financial instruments for which it is practicable to estimate that value follows:

### A. Cash:

For cash and overnight investments, the carrying amount is a reasonable estimate of fair value.

**B. Loans:**

Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Since the discount rates are based on the Association's loan rates as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and discount rates reflecting appropriate credit risk are determined separately for each individual pool.

Fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher discount rates to reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

The carrying value of accrued interest approximates its fair value.

**C. Investment in the Bank:**

Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 2, "Summary of Significant Accounting Policies," the investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. The Association owns 3.0 percent of the issued common stock of the Bank as of December 31, 2010. As of that date, the Bank's assets totaled \$14.1 billion and members' equity totaled \$1.2 billion. The Bank's earnings were \$168.5 million during 2010.

**D. Note payable to the Bank:**

The note payable to the Bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the Association's and Bank's loan rates as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the Association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

**E. Commitments to extend credit and standby letters of credit:**

The Association does not normally assess fees on its commitments to extend credit; hence, there is no fair value to be assigned to these commitments until they are funded.

**NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):**

Quarterly results of operations for the years ended December 31 (in thousands) follow:

	<b>2010</b>				
	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Total</b>
Net interest income	\$ 3,116	\$ 3,150	\$ 3,148	\$ 3,295	\$ 12,709
Reversal of (provision for) loan losses	35	(372)	(184)	(168)	(689)
Noninterest (expense) income, net	(1,244)	(604)	(1,006)	72	(2,782)
<b>Net income</b>	<b>\$ 1,907</b>	<b>\$ 2,174</b>	<b>\$ 1,958</b>	<b>\$ 3,199</b>	<b>\$ 9,238</b>

	<b>2009</b>				
	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Total</b>
Net interest income	\$ 2,985	\$ 2,957	\$ 2,983	\$ 3,100	\$ 12,025
(Provision for) reversal of loan losses	(867)	(1,655)	(161)	323	(2,360)
Noninterest (expense), net	(1,327)	(1,372)	(1,322)	(529)	(4,550)
<b>Net income</b>	<b>\$ 791</b>	<b>\$ (70)</b>	<b>\$ 1,500</b>	<b>\$ 2,894</b>	<b>\$ 5,115</b>

	<b>2008</b>				
	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Total</b>
Net interest income	\$ 2,837	\$ 2,852	\$ 2,919	\$ 3,027	\$ 11,635
Reversal of (provision for) loan losses	4	(12)	(19)	(81)	(108)
Noninterest (expense), net	(932)	(1,074)	(1,131)	(485)	(3,622)
<b>Net income</b>	<b>\$ 1,909</b>	<b>\$ 1,766</b>	<b>\$ 1,769</b>	<b>\$ 2,461</b>	<b>\$ 7,905</b>

The increase in net income during the fourth quarters of 2010, 2009 and 2008 is primarily the result of higher patronage income received from the Bank during those respective quarters.

**NOTE 16 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through March 2, 2011, which is the date the financial statements were issued or available to be issued and noted that there were no subsequent events to report.

## **DISCLOSURE INFORMATION AND INDEX**

*Disclosures Required by Farm Credit Administration Regulations*

### **DESCRIPTION OF BUSINESS**

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings, interest rates to borrowers, patronage, or dividends and acquisitions or dispositions of material assets, changes in patronage policies or practices, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

### **DESCRIPTION OF PROPERTY**

The Alabama Farm Credit, ACA (Association) serves its 27-county territory through its main administrative office at 1740 Eva Road, N.E., Cullman, Alabama 35055. Additionally, there are five branch lending offices located throughout the territory. The Association owns the office buildings in Albertville, Athens, Cullman, Talladega and Tusculumbia, free of debt. The Association leases an outpost in Moulton.

### **LEGAL PROCEEDINGS**

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

### **DESCRIPTION OF CAPITAL STRUCTURE**

The information required to be disclosed in this section is incorporated herein by reference from Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report.

### **DESCRIPTION OF LIABILITIES**

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 13 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

### **RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS**

The Association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (Bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the Association.

The Farm Credit Bank of Texas and District Associations' (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 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing [fcf@farmcreditbank.com](mailto:fcf@farmcreditbank.com). The District's annual and quarterly stockholder reports are also 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 will be available approximately 40 days after quarter end and 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). The Association's annual stockholder report is available on its website at [www.alabamafarmcredit.com](http://www.alabamafarmcredit.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.

## SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2010, required to be disclosed, is incorporated herein by reference to the “Five-Year Summary of Selected Consolidated Financial Data” included in this annual report to stockholders.

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

“Management’s Discussion and Analysis,” which precedes the consolidated financial statements in this annual report, is incorporated herein by reference.

### DIRECTORS AND SENIOR OFFICERS

The Association’s member-elected and director-elected board of directors and senior officers are as follows:

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Loyd Rutherford	Chairman	1990	2013
Larry Don McGee	Vice Chairman	1997	2012
John Walton Anderson	Member	1998	2013
Matthew J. Christjohn, DVM	Member	2005	2011
Jimmy Wayne Harvey	Member	2006	2012
Benny Neal Smith	Member	1996	2011
John R. Adams, CPA	Director-Elected Director	2006	2012
K. Ben Gore	President /Chief Executive Officer	1989	-
Ralph D. Stewart	Executive Vice President/Chief Credit Officer	2009	-
Karri H. Sumrall, CPA	Sr. Vice President/Chief Financial Officer	2003	-

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

**Loyd Rutherford**, age 69. Mr. Rutherford is semi-retired living in Lawrence County. Before retiring he worked for 32 years with a local cooperative along with raising cotton, soybeans, cattle and broilers. He has been on the Association board since 1990 and has served as chairman since 1995. He serves on the Stockholders Advisory committee and the District Benefits Administrative committee for the Farm Credit Bank of Texas. He is a member of the Farm Credit Benefit Alliance plan sponsor committee which services both AgFirst Bank and the Farm Credit Bank of Texas. He also serves on the Tenth District Farm Credit Council board and the National Farm Credit Council board headquartered in Washington D.C. He also serves as chairman of the Farm Credit Council Services board headquartered in Denver, Colorado. He owns and operates JRL, Inc., a construction and development company in Moulton, Alabama.

**Larry Don McGee**, age 61. Mr. McGee is a full-time poultry and cattle farmer from Jackson County. He owns and operates 500 acres in Jackson and DeKalb counties. He has approximately 200 head of brood cows along with three pullet houses with a capacity of 21,000. He has been the owner/operator of L & D Farms for the past 26 years. He is a director for the Sand Mountain–Lake Guntersville Water Shed and a member of the DeKalb County Cattlemen’s Association and the Alabama Poultry & Egg Association. Mr. McGee serves on the Association’s audit committee. The primary function of the audit committee is to assist the board of directors in fulfilling its oversight responsibilities relating to the quality of financial reporting, the system of internal controls, the audit process, and the Association’s process for monitoring compliance with laws and regulations and the code of conduct. Mr. McGee also serves as director of the Jackson County Soil and Water Conservation District board.

**John Walton Anderson**, age 64. Mr. Anderson is a full-time row crop and cattle farmer in Limestone County. He has been farming for the past 40 years, and his operation consists of approximately 4,000 acres of cropland, pasture and timber. His current operation includes some 2,000 acres of row crops and 400 head of brood cows. He is a member of the Limestone County and Alabama Cattlemen’s Association. Mr. Anderson is also a member of the Association’s compensation committee. The primary function of the compensation committee is to provide assistance to the board of directors in fulfilling the board's responsibilities on matters relating to compensating the board and the Association's CEO, reviewing the compensation policies and plans for senior officers and employees, including incentive compensation plans and benefits, overseeing the Association's management succession planning, and engaging in such other matters as may from time to time be specifically delegated to the committee by the board.

**Matthew J. Christjohn, DVM**, age 40. Dr. Christjohn is the owner and operator of Large Animal Veterinary Services, a practice concentrating on farm animals – mainly cattle and horses. The business covers territory in Alabama, Georgia, and Florida. Dr. Christjohn received his animal & dairy science degree from Auburn University in 1992, doctor of veterinary medicine degree from Auburn University in 1995 and master of business administration from University of Phoenix in January 2008. In addition to his business, he presently owns and operates a 220-acre cattle farm in Wedowee, Alabama. Dr. Christjohn is a member of the American and Alabama Veterinary Medical Associations, Society for Theriogenology, American Association of Bovine Practitioners, Academy of Veterinary Consultants, American Association of Veterinary Nutrition, National Cattleman's Beef Association, Alabama Cattlemen's Association and the Florida Cattlemen's Association. Dr. Christjohn is also a member of the Association's audit committee. The primary function of the audit committee is to assist the board of directors in fulfilling its oversight responsibilities relating to the quality of financial reporting, the system of internal controls, the audit process, and the Association's process for monitoring compliance with laws and regulations and the code of conduct.

**Jimmy Wayne Harvey**, age 59. Mr. Harvey is a licensed Alabama home builder. He retired from the construction business in 2000 after 18 years. He owns and operates a small cattle farm in Marshall County. He recently retired from the poultry business for which he had been in business for 20 years. He is a member of the Alabama Poultry and Egg Association and Marshall Farmers Co-op. Mr. Harvey is also a member of the Association's compensation committee. The primary function of the compensation committee is to provide assistance to the board of directors in fulfilling the board's responsibilities on matters relating to compensating the board and the Association's CEO; reviewing the compensation policies and plans for senior officers and employees, including incentive compensation plans and benefits; overseeing the Association's management succession planning; and engaging in such other matters as may from time to time be specifically delegated to the committee by the board.

**Benny Neal Smith**, age 72. Mr. Smith is retired from Synergy Gas Company after 33 years as a route salesman. He operates an approximately 100-acre cattle and poultry farm in Etowah County. He has approximately 50 brood cows along with a broiler contract from Koch Poultry Company having a farm capacity of 110,000 broilers. He has been in the poultry business for the past 46 years. He is a member of the Alabama Poultry and Egg Association and the Alabama Cattlemen's Association. Mr. Smith is also a member of the Association's compensation committee. The primary function of the compensation committee is to provide assistance to the board of directors in fulfilling the board's responsibilities on matters relating to compensating the board and the Association's CEO, reviewing the compensation policies and plans for senior officers and employees, including incentive compensation plans and benefits, overseeing the Association's management succession planning, and engaging in such other matters as may from time to time be specifically delegated to the committee by the board.

**John R. Adams, CPA**, age 51. Mr. Adams is a certified public accountant with over 29 years of experience in public accounting. He is a partner in a local accounting firm in Decatur, Alabama. Mr. Adams received his bachelor of science degree with an emphasis in accounting from the University of Alabama. He is a member of the American Institute of Certified Public Accountants, Alabama Society of Certified Public Accountants and National Society of Accountants for Cooperatives. Mr. Adams is also the chairman of the Association's audit committee. The primary function of the audit committee is to assist the board of directors in fulfilling its oversight responsibilities relating to the quality of financial reporting, the system of internal controls, the audit process, and the Association's process for monitoring compliance with laws and regulations and the code of conduct.

**K. Ben Gore**, age 58. Mr. Gore was selected as CEO effective January 1, 2009. Mr. Gore has a total of 35 years of experience with the Farm Credit System.

**Ralph D. Stewart**, age 38. Mr. Stewart was employed by the Association in September 2009. Mr. Stewart has over 13 years of experience with the Farm Credit System.

**Karri H. Sumrall, CPA**, age 39. Ms. Sumrall is a certified public accountant with over eight years of experience in public accounting with an emphasis in financial institutions and has over seven years of experience with the Farm Credit System.

## COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of a monthly retainer of \$750 per month and \$500 per day for regular, special and committee meetings. For meetings in which they served on other Farm Credit boards (for which they are compensated) and also represent the Association, the Association pays any difference in meeting honorarium paid to the director, up to the \$500 per day. Directors were also compensated \$100 per conference call during 2010. Certain expenses incurred by directors while representing the Association in an official capacity were reimbursed. Mileage for attending official meetings during 2010 was paid at the IRS-approved rate of 50 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

Director	Number of Days Served Associated With				No. of Days Board and Committee Meetings Held on Same Day*	2010 Compensation Paid for Other Farm Credit Meetings & DBAC	Total Compensation in 2010
	Board Meetings	Other Official Committee Activities	Conference Calls				
Lloyd Rutherford	12	25	2	-	-	\$ 1,200	\$ 28,900
Larry Don McGee	12	20	2	4	-	-	23,200
John R. Adams, CPA	12	15	1	4	-	-	20,600
John Walton Anderson	12	7	1	-	-	-	18,600
Matthew J. Christjohn, DVM	12	13	1	4	-	-	19,600
Jimmy Wayne Harvey	12	11	1	-	-	-	20,600
Benny Neal Smith	12	6	1	-	-	-	18,100
						\$ 1,200	\$ 149,600

The aggregate compensation paid to directors in 2010, 2009 and 2008 was \$149,600, \$163,200 and \$181,800, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

Director	Committee	
	Audit*	Compensation
John R. Adams, CPA	\$ 3,000	\$ -
John Walton Anderson	-	2,000
Matthew J. Christjohn, DVM	3,000	-
Jimmy Harvey	-	2,000
Larry Don McGee	3,000	-
Benny Neal Smith	-	1,000
	\$ 9,000	\$ 5,000

\*Four audit committee meetings were held on the same day as board meetings; only the \$500 per day honorarium was received for attending both the committee meeting and board meeting.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$46,422, \$56,049 and \$46,898 in 2010, 2009 and 2008, respectively.

## COMPENSATION OF SENIOR OFFICERS

### Compensation Discussion and Analysis – Senior Officers

#### Overview

A critical factor to the Association’s success is its ability to attract, develop and retain staff that is knowledgeable and efficient in their ability to support the Association in the execution of its strategic objectives and delivery of Association results that maximize the value to the stockholders. This objective holds particularly true for the Association’s chief executive officer (CEO) and senior officer group. The Association operates utilizing a compensation program which focuses on the performance and contributions of its employees in achieving the Association’s financial and operational objectives, all for the ultimate benefit of its stockholder/members. The Association’s board of directors, through its compensation committee, establishes salary and incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure that salary and incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for the Association’s evaluation and establishment of salary and incentive plans used by the Association.

#### Chief Executive Officer (CEO) Compensation Table and Policy

The following table discloses total compensation for the Association’s chief executive officer (CEO) for 2010, 2009 and 2008. As explained below, amounts reported in the “Deferred/Perquisite” and “Other” columns represent value of benefits provided but are not necessarily indicative of cash outlay from the Association directly to the respective employees.

Name of Individual	Year	Salary (a)	Incentive (b)	Change in Pension Value (c)	Deferred/Perquisite (d)	Other (e)	Total
K. Ben Gore, President/CEO	2010	\$ 180,542	\$ 34,121	\$ 371,361	\$ 15,323	\$ 48,774	\$ 650,121
	2009	163,292	29,100	171,822	11,278	1,431	376,923
David A. Howse	2008	190,500	19,241	*	10,952	1,719	222,412

\*No data available for periods prior to 2009.

- (a) Gross salary presented.
- (b) Incentive compensation is presented in the year earned, and is paid within the first 30 days of the subsequent calendar year.
- (c) The change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the prior completed fiscal year to the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the covered fiscal year.
- (d) Deferred/Perquisites include contributions to a 401(k) plan, automobile benefits and spousal travel reimbursements in accordance with IRS guidelines.
- (e) Other includes amounts paid for group term life insurance premiums, payment of excess annual leave (2008 only) and a board-approved one-time payout in 2010 to discontinue the Association’s retirement gift policy that had previously been in place.

For more detailed information on the above components, also see narratives following “Compensation of Senior Officers” below.

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2010:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2010
K. Ben Gore	Farm Credit Bank of Texas Pension Plan	36	\$ 1,396,908	\$ -

## Pension Benefits Table Narrative Disclosure for the CEO

The CEO of the Association participates in the Farm Credit of Texas Pension Plan (the “Pension Plan”), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan’s benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times “Years of Benefit Service” and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation items (ii) “Years of Benefit Service” (not to exceed 35). The present value of the CEO’s accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 65. The Pension Plan’s benefit formula for the Normal Retirement Pension assumes that the CEO is married on the date the annuity begins, that the spouse is exactly two years younger than the CEO, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

## Compensation of Other Senior Officers

The following table discloses total compensation for the Association’s aggregate total compensation for the Association’s five most highly compensated officers during 2010, 2009 and 2008. As explained below, amounts reported in the “Deferred/Perquisite” and “Other” columns represent value of benefits provided but are not necessarily indicative of cash outlay from the Association directly to the respective employees. Amounts reflected in the table are presented in the year the compensation was earned.

<u>Name of Group</u>	<u>Year</u>	<u>Salary (a)</u>	<u>Incentive (b)</u>	<u>Deferred/ Perquisite (c)</u>	<u>Other (d)</u>	<u>Total</u>
Aggregate No. of 5 Highest Paid Officers in Year						
(5)	* 2010	\$ 556,022	\$ 111,379	\$ 70,217	\$ 67,839	\$ 805,457
(5)	* 2009	456,467	66,700	45,875	83,324	652,366
(5)	* 2008	510,400	57,046	53,647	18,191	639,284

\*does not include CEO

(a) Gross salary presented.

(b) Incentive compensation is presented in the year earned, and is paid within the first 30 days of the subsequent calendar year.

(c) Deferred/Perquisites include contributions to a 401(k) and defined contribution plans, automobile benefits and spousal travel reimbursements in accordance with IRS guidelines.

(d) Other includes amounts paid for group term life insurance premiums, payment of excess annual leave (2008 only), retirement gifts and payout of unused annual leave at retirement and a board-approved one-time payout in 2010 to discontinue the Association’s retirement gift policy that had previously been in place.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate are available and will be disclosed to shareholders of the institution upon request.

Association employees, including senior officers, can earn compensation above base salary through an annual success-sharing incentive plan. The term of the plan is each calendar year beginning January 1 through December 31. The plan is based upon the achievement of predetermined Association performance goals for return on assets, efficiency ratio, net loan growth, credit quality and delinquency volume. The plan places more emphasis on earnings (return on assets and efficiency ratio) than any other factor in the plan and is approved by the board of directors annually. All full-time employees that have been employed at least three months are eligible to earn an individual incentive up to 25.0 percent of their annual salary based upon their individual performance objectives. The following criteria is also used for determining eligibility for the incentive pay: (1) the Association must not be in default of the General Financing Agreement with the Farm Credit Bank of Texas; (2) the Association cannot receive an overall rating of “unsatisfactory” on credit administration by the Internal Credit Review and/or FCA examinations; (3) the employee’s branch office cannot receive an overall rating of “unsatisfactory” on credit administration; (4) there must be material income from operations beyond what is needed to fund the incentive plan; and (5) eligible employees must receive an annual performance rating of “meets standard of good competent performance” on his/her individual performance review.

Also included in the incentive plan is the opportunity to earn commissions. The Association participates in a program with an outside insurance entity to provide borrowers the opportunity to purchase credit life insurance. Association employees receive commissions from the outside insurance entity through the Association during the calendar year. The Association also participates in a program with AgSouth Farm Credit, ACA to provide borrowers with secondary housing loans. Association employees receive commissions based on the fee income received by the Association for loans closed under this program during the calendar year. Also, employees are eligible to receive commissions on leases originated through Farm Credit Leasing during the calendar year. Amounts paid under these plans are paid no later than January following the close of the plan term and are included in “Incentive” in the table on the previous page.

The Association provides certain employees use of Association automobiles. The employees’ personal use of these automobiles is governed by the Association’s board-approved travel and vehicle policy as well as IRS rules. Employees assigned a vehicle are required to maintain a business mileage log. Personal use of these vehicles is calculated and reported in compliance with current IRS regulations. Amounts for personal use of an Association vehicle are included in “Deferred/Perquisite” in the table on the previous page.

Employees who use their personal automobile for business purposes were reimbursed during 2010 at the IRS-approved rate of 50 cents per mile.

The Association’s travel policy allows spousal travel in some instances. Travel expenses reimbursed for spousal travel are considered to be paid to the employee or director under a nonaccountable plan and are therefore included in their gross income or IRS Form 1099 in accordance with IRS guidelines. Amounts relating to reimbursed travel expenses are included in “Deferred/Perquisite” in the table on the previous page.

The Association participates in the Farm Credit Benefits Alliance 401(k) Plan which requires the Associations to match 100 percent of employee contributions up to 3.0 percent of base salary and to match 50.0 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of base salary. Amounts paid under this plan are included in “Deferred/Perquisite” in the table on the previous page.

Participants in the Defined Contribution (DC) Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers’ contributions, 5.0 percent of salaries for the year ended December 31, 2010 made on their behalf into various investment alternatives. Amounts paid under this plan are included in “Deferred/Perquisite” in the table on the previous page.

The Association sponsors a defined contribution supplemental retirement plan eligible to employees whose compensation exceeds the IRS threshold of \$105,000 in the preceding year. This plan would allow for an employee to restore his or her contributions restricted by IRS limits to salary, elective deferrals made by employees to defer compensation out to a future date, discretionary contributions made by the Association to a select group of employees and retention feature using vesting schedules for discretionary contributions. This plan is a nonqualified 401(k) plan. No contributions have been made to the plan to date.

The Association also provides group term life insurance to all employees in an amount equal to double the employees’ respective salaries. To the extent that the value of this life insurance exceeds \$50,000, an amount is added to each respective employee’s taxable earnings using the IRS-approved calculation. Amounts relating to excess life insurance are included in “Other” in the table on the previous page.

Association policy allows a maximum of 240 hours of annual leave to be carried over from one fiscal year to the next. Employees with more than 240 hours of annual leave time may “cash out” up to 80 hours of annual leave, with any remaining hours in excess of the 240-hour limit being converted to sick leave time. This policy was amended in 2009 to disallow cashing out excess annual leave. Excess amounts not used during the year are automatically converted to special sick leave. Amounts relating to 2008 excess annual leave time cashed out are included in “Other” in the table on the previous page.

Retirement gifts, payout of unused annual leave at retirement and a 2010 one-time payout approved by the board of directors to discontinue the Association’s retirement gift policy that had previously been in place are included in “Other” in the table on the previous page.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting Association business. A copy of the Association’s travel policy is available to shareholders upon request.

Neither the CEO nor any other senior officer received noncash compensation exceeding \$5,000 in 2010.

## **TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS**

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 11 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

### **DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

During the past five years, none of the Association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as director or senior officer.

### **RELATIONSHIP WITH INDEPENDENT AUDITOR**

The Association's audit committee engaged the independent accounting firm of PricewaterhouseCoopers, LLP (PwC) to perform the annual audit of the Association's financial statements included in this annual report. The estimated fees per the 2010 audit engagement letter for professional services rendered for the Association by PwC were \$36,500. No other services were performed by PwC during the reporting period.

### **FINANCIAL STATEMENTS**

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 2, 2011 and the report of management in this annual report to stockholders, are incorporated herein by reference.

### **CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS**

The Association is committed to meeting the needs of Young, Beginning and Small (YBS) farmers and ranchers and recognizes the need to support these operators to ensure a strong agricultural community for the future. Support of YBS lending activities is a priority in the Association. Additional employee time and other resources are combined with the most liberal application of the Association's underwriting standards possible to meet the credit needs of YBS farmers and ranchers. In addition, the Association actively supports other programs, events, scholarships and educational activities that benefit young people who will become the agricultural providers of tomorrow.

The Association sets minimum standards and monitors its YBS performance on a regular basis. These results are also compared to the demographics of the territory it serves as reflected in the USDA Census of Agriculture (Census).

Definitions for "young", "beginning" and "small" farmers and ranchers used by the Association are:

- Young: Age 35 or younger as of the loan date
- Beginning: 10 years or less of farming, ranching or aquatic experience as of the loan date
- Small: Less than \$250,000 in annual gross sales of agricultural products

Slight differences noted between the Census and our YBS information is as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association's YBS information shows young farmers up to age 35.
- The Census shows years on present farm a class up to nine years, whereas the Association's YBS information shows 10 years or less for a beginning farmer.
- The Census data is based on number of farms, whereas the Association's YBS information is based on number of loans.

The 2007 USDA Census of Agriculture for Alabama indicates that 5.1 percent of farm operators are “young”, 28.2 percent are “beginning” and 92.4 percent of the farms are “small”. The Association’s YBS lending goals per its 2010 business plan were as follows:

<b>YBS Class</b>	<b>Percentage of Total Loans</b>	<b>Percentage of Loan Volume</b>
Young	>26%	>26%
Beginning	>48%	>48%
Small	>75%	>75%

The Association’s YBS loans, as a percentage of total loans outstanding as of December 31, are reflected in the table below for the past three years:

	<b>2008</b>		<b>2009</b>		<b>2010</b>	
	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume
<b>Young</b>	26.48%	29.41%	25.66%	28.58%	25.64%	28.71%
<b>Beginning</b>	49.16%	50.25%	48.42%	48.71%	48.75%	49.75%
<b>Small</b>	79.07%	74.19%	79.55%	74.43%	82.26%	76.40%

The Association’s YBS loans, as a percentage of all loans closed each year, are reflected in the table below for the past three years:

	<b>2008</b>		<b>2009</b>		<b>2010</b>	
	% of New Loans	% of New Loan Volume	% of New Loans	% of New Loan Volume	% of New Loans	% of New Loan Volume
<b>Young</b>	23.40%	28.00%	24.20%	27.79%	20.34%	25.51%
<b>Beginning</b>	50.64%	55.17%	45.20%	44.00%	37.57%	46.12%
<b>Small</b>	77.66%	73.64%	79.36%	70.18%	76.55%	67.56%

For purposes of the above tables, a loan could be classified in more than one category depending upon the characteristics of the underlying borrower. The number and volume of loans in many cases falls into more than one category. For example, a 32-year-old farmer with farm income of \$150,000 would be counted in the statistics for both “young” and “small” categories.

The Association continues to provide credit to YBS farmers and ranchers at high levels as reflected by the above comparative data. Emphasis on this area of the Association’s lending business will continue to be a priority.